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Part I

COMMISSION STAFF WORKING PAPER

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

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1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

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. The ESF Impact Assessment discusses issues of scope of the ESF as well as the articulation between the ESF and the other financial instruments available to the DG Employment, Social Affairs and Inclusion. The ERDF and Cohesion Fund Impact Assessment includes the issues of the scope of the ERDF, the scope of the Cohesion Fund and European Territorial Cooperation. More detailed ex-ante evaluations will accompany the Commission's proposal for a new integrated programme covering PROGRESS, EURES and the micro-finance facility, and the Commission's proposal for the EGF regulation. Ex-ante evaluations will also be carried out for each Operational Programme.

1.1. Organisation and timing

Work on the Impact Assessment of the Common Provisions Regulation for the European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF) began in September 2010 with the creation of the Impact Assessment Steering Group (IASG)[1].

1.2. Consultation and expertise

This impact assessment is based on:

– results of the ex-post evaluations carried out on the 2000-2006 programmes;

– results of the public consultation which was summed up in the 5th Progress Report on Economic and Social Cohesion adopted by the Commission in June 2008;

– the Budget Review[2];

– the Fifth Cohesion Report[3];

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1 The following services participated in at least one meeting of the IASG: AGRI, BUDG, CLIMA, COMP, EAC, EEAS, ECFIN, ELARG, EMPL, ENER, ENTR, ENV, INFSO, JUST, MARE, MOVE, OLAF, REGIO, RELEX, RTD, SANCO, SG, TRADE.

2 "The EU Budget Review", COM (2010) 700, 19.10.2010.

3 Fifth Report on Economic, Social and Territorial Cohesion, November 2010.

- results of the public consultation following the adoption of the Fifth Cohesion Report in November 2010;
- proposals for the multi-annual financial framework[4];
- a broad range of studies and expert advice[5].

Expert advice was provided through the High Level Group reflecting on future Cohesion Policy, composed of experts from national administrations, with 10 meetings held between 2009 and 2011, as well as a Task Force on Conditionality, with three meetings held in early 2011. This Impact Assessment also takes account of other consultations, including the public consultation on the Budget Review and the TEN-T guidelines.

The public consultation and stakeholder meetings included:

- Public consultation following the Fourth Report on Economic and Social Cohesion in September 2007, results of which were summarised in the Fifth Progress Report: The Commission received more than 100 contributions, mainly from stakeholders close to the management of the policy, representing more than half the Member States (accounting for almost 80% of the EU population); a large number of regional authorities; a majority of regional and local associations; economic and social partners; civil society organisations; academic and research institutions; and some citizens.
- Public consultation following the publication of the Green Paper on Territorial Cohesion in October 2008. The Commission received 391 responses, including contributions from all Member States, from nearly 100 regional authorities, from more than 150 regional and local associations as well as from cities, economic and social partners, civil society organisations, research institutions, and individual citizens. The European Parliament, the Committee of the Regions, and the European Economic and Social Committee all adopted Opinions on the Green Paper on Territorial Cohesion and the Fifth Cohesion Report and on various aspects of future cohesion policy[6].
- Conference "Shaping the future of the ESF - ESF & Europe 2020", 23 and 24 June 2010 and Fifth Cohesion Forum, 31 January and 1 February 2011.
- Council Presidency conclusions. Czech Presidency, Communiqué of Ministers for Regional Policy, Mariánské Lázne, Czech Republic, 23 April 2009; Spanish Presidency Conclusion Document, Informal Meeting of Ministers of Regional Policy, Zaragoza, February 19, 2010; Belgian Presidency, Summary of the answers of the Member States to the Presidency questionnaire, Informal Meeting of the Ministers for Cohesion Policy, Liège - 22 and 23 November 2010; Belgian Presidency, Informal Meeting of the Ministers in charge of Cohesion Policy Liège, 22-23 November 2010, Presidency Conclusions; Hungarian Presidency, Conclusions of the General Affairs Council 21 February 2011; Informal Meeting of Ministers Responsible for Cohesion Policy, 20 May 2011, Gödöllő, Hungary.

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4 Communication "A Budget for Europe 2020", COM (2011) 500, 29.6.2011.

5 The full list of studies can be found in Annex 6.

6 European Parliament report on the Fifth Cohesion Report, Committee on Regional Development, 6.6.2011, (2011/2035(INI); Opinion of the Committee of the Regions on the Fifth Cohesion Report, COTER-V-011, 31 March and 1 April 2011; Opinion of the European Economic and Social Committee on the Fifth Cohesion Report, ECO/288, 16 June 2011;

1.3. Main results of public consultation

A public consultation was held between 12 November 2010 and 31 January 2011. A total of 444 contributions were received. The public consultation asked a series of questions about the future of cohesion policy. A summary of the results was published on 13 May 2011[7].

The main messages coming from the public consultation were as follows:

– broad public support for a more results-oriented, more efficient and simplified cohesion policy;

– support for a reform that would ensure the effectiveness of cohesion policy and its added value in terms of investment and intervention;

– support for striking the right balance between full alignment of cohesion policy with Europe 2020 and focus on the cohesion policy objective set out in Treaty, namely reducing disparities throughout Europe.

The replies to individual questions in the public consultation can be summarised as follows:

1. *How could the Europe 2020 Strategy and cohesion policy be brought closer together at EU, national and sub-national levels?* Contributors generally favoured a stronger link between cohesion policy and the Europe 2020 Strategy, but some stressed the need to maintain the specific aims of cohesion policy. Respondents stressed the need to ensure that cohesion policy offers the flexibility to take into account the regional and local context, allowing regional and local actors to influence the priorities and goals of cohesion policy through a bottom-up approach.

2. *Should the scope of the development and investment partnership contract go beyond cohesion policy and, if so, what should it be?* Most contributors supported the Commission's proposal for a common strategic framework that would include other EU funds in addition to the European Regional Development Fund, European Social Fund and Cohesion Fund, which currently make up cohesion policy. However, most stakeholders expressed no clear position on the proposed partnership contracts. A majority of Member States were in favour of extending the contracts beyond cohesion policy.

3. *How could stronger thematic concentration on the Europe 2020 priorities be achieved?* Although the contributors mainly supported the proposal that cohesion policy programmes should focus on a limited number of priorities so as to achieve the Europe 2020 objectives, a significant number were concerned about how the priorities could be set. Many pointed out that there should be no pre-defined thematic concentration at EU level.

4. *How could conditionalities, incentives and results-based management make cohesion policy more effective?* Many contributors supported the introduction of incentives linked to the performance of cohesion policy, but tended to be less positive about the introduction of conditions not directly related to the effectiveness of the policy. Generally, respondents asked for further details on the different options.

5. *How could cohesion policy be made more results-oriented? Which priorities should be obligatory?* Contributors supported the introduction of better-functioning monitoring and

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[7] "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.

evaluation systems linked to a results-oriented approach to cohesion policy. They also called for better qualitative and quantitative indicators, which are truly results-oriented and aligned with locally identified objectives. The environment, innovation and social inclusion were mentioned among the main policy priorities to be pursued, but respondents generally referred to them as 'priority areas'. Very few respondents were in favour of 'mandatory priorities'.

6. *How can cohesion policy take better account of the key role of urban areas and of territories with particular geographical features in development processes and of the emergence of macro-regional strategies?* In general, stakeholders supported more focus on urban territories and regions facing particular geographical and/or demographic challenges. Development of macro-regional strategies was welcomed as a means of supporting such regions. The role of urban-rural linkages was also stressed.

7. *How can the partnership principle and involvement of local and regional stakeholders, social partners and civil society be improved?* Contributors called for more and better engagement with local stakeholders, including civil society and the private sector, throughout the strategic programming process and during programme implementation. Specific suggestions from local and regional authorities, the social partners and other organisations included better dialogue between public and private sectors, clearer definition and enforcement of the partnership principle, stronger involvement of target groups in designing measures and projects and more effective communication with all stakeholders.

8. *How can the audit process be simplified and how can audits by Member States and the Commission be better integrated, whilst maintaining a high level of assurance on expenditure co-financed?* Generally, there was strong support for a more transparent, simplified set of financial management procedures. In particular, respondents called for a proportionate and progressive system of audit and control which would depend both on the size and cost of the project and on the proven reliability of managing authorities in previous programming periods.

9. *How could application of the proportionality principle alleviate the administrative burden in terms of management and control? Should there be specific simplification measures for territorial cooperation programmes?* Respondents called for greater flexibility and simplification of administrative rules, particularly when there are limited funds and extensive experience of managing similar projects. A greater focus on the outputs and results of projects was suggested so as to simplify management and control systems. With regard to territorial cooperation programmes, there were calls for more standardisation of rules and procedures across Member States.

10. *How can the right balance be struck between common rules for all the Funds and acknowledgement of Funds' specificities when defining eligibility rules?* Most contributors called for a common set of rules for the Structural Funds on eligibility of expenditure, audits, financial issues, use of standard costs, etc. However, some added that, within the common set of rules, a degree of flexibility should be maintained on how to achieve and support the different aims of the specific Fund and/or region. Others simply called for clearer definition, application and interpretation of existing rules (mainly with regard to eligible expenditure).

11. *How can financial discipline be ensured, while providing enough flexibility to design and implement complex programmes and projects?* Many respondents supported the Commission's proposal to apply the current decommitment rule while introducing an exception for the first year. Some suggested extending the decommitment rule to N+3 for the

whole programming period, while a small number said that the N+2 rule was adequate but should be enforced better. There were also calls for greater decentralisation of financial management to regional and local authorities, with more flexibility in the design and implementation of operational programmes tailored to the specific regional and national context. Respondents wanted procedures to be agreed in advance and be left unchanged throughout the programming period. They called for specific measures to strengthen the administrative capacity of local and regional bodies.

12. *How can it be ensured that the architecture of cohesion policy takes into account the specificity of each Fund and in particular the need to provide greater visibility and predictable funding volumes for the ESF and to focus it on securing the 2020 objectives?* The contributions addressing the relationship between the ESF and the ERDF generally wanted to maintain the current specific nature of the ESF, but without creating a different budget heading, and called for greater coordination between the ESF and the ERDF. A significant number of respondents, in particular regional and local authorities, highlighted the major contribution the ESF had made in the current socio-economic circumstances and its direct link with the Europe 2020 objectives. They wanted to maintain the current specific nature of the ESF in terms of its broad focus on employability, training and social inclusion.

13. How could a new intermediate category of regions be designed to accompany regions which have not completed their process of catching up? Contributors were generally positive about creating an intermediate category, as long as this did not compromise the principle of cohesion policy support for all European regions. Nevertheless, some called for a more flexible transition mechanism, including a gradual reduction of funding with additional help for regions facing specific issues or special needs. Finally, some respondents suggested that other criteria beyond GDP should be adopted to identify intermediate regions.

2. PROBLEM DEFINITION

The Fifth 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[8]. However, cohesion policy is the subject of debate by policy-makers, academics and stakeholders particularly as regards the EU added value, effectiveness and efficiency. Some argue that cohesion policy is too thinly spread, without sufficient focus on EU priorities, and that its impacts are often difficult to measure.

There are a number of problems which need to be addressed. A first set of issues relate to the design of the policy, its objectives and its ability to deliver EU added value. In addition, beyond the issue of policy design, stakeholders, and in particular those responsible for implementing and evaluating the programmes, have highlighted issues related to the performance of the policy and the efficiency of its delivery.

This Impact Assessment therefore examines three main problem areas:

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[8] 5th 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

– Problems related to the ability to deliver EU added value
– Problems related to the performance of the policy
– Problems related to the delivery of the policy.

2.1. Problem related to the capacity to deliver EU added value

"The EU budget should focus on EU added value, meaning the delivery of objectives that can be achieved better through spending at EU level rather than at the level of the individual Member States"[9].

Increasing the EU added value of cohesion policy through better objective setting raises the following questions:

(1) Where should the policy be focused, i.e. its **geographical distribution of support?** Should it be limited to less developed regions or open to all regions of the EU? With ever-increasing pressures on public finances and the EU budget, is there a case to be made to continue a policy for all regions?

(2) On what should the policy be focused, i.e. to what extent should cohesion policy **concentrate on a limited number of priorities in line with the Europe 2020 strategy**, ensuring thematic concentration to help address challenges such as social exclusion, climate change, economic restructuring and the shift to a more innovative and knowledge-based economy by creating jobs and improving skills?

On **geographical concentration of support**, in the 2007-2013 period, more than 80% of the total cohesion policy allocation is concentrated on the Convergence objective covers the poorest Member States and regions. In the remaining regions, about 16% of the total cohesion policy allocation is concentrated on supporting innovation, sustainable development, better accessibility and training projects under the Regional Competitiveness and Employment objective. About 2% of the total cohesion policy allocation is available for cross-border, transnational and interregional cooperation under the European Territorial Cooperation objective.

The rationale underlying the Convergence objective is to promote growth-enhancing conditions and factors leading to real convergence of the least-developed Member States and regions in comparison with the EU average. The Convergence objective concerns 84 regions in 17 Member States, with a population of 154 million, whose per capita GDP is less than 75% of the EU average, and – on a "phasing-out" basis - another 16 regions with 16.4 million inhabitants with a GDP only slightly above the threshold due to the statistical effect of an enlarged EU. The amount available under the Convergence objective is € 251.1 billion. This is split as follows: € 189.6 billion for the Convergence regions, while € 12.5 billion are reserved for the "phasing-out" regions. € 61.6 billion is also allocated to the Cohesion Fund, and applies to 15 Member States in the current period.

Outside the Convergence regions, the Regional Competitiveness and Employment objective aims to strengthen regions' competitiveness and attractiveness as well as employment in more developed regions.

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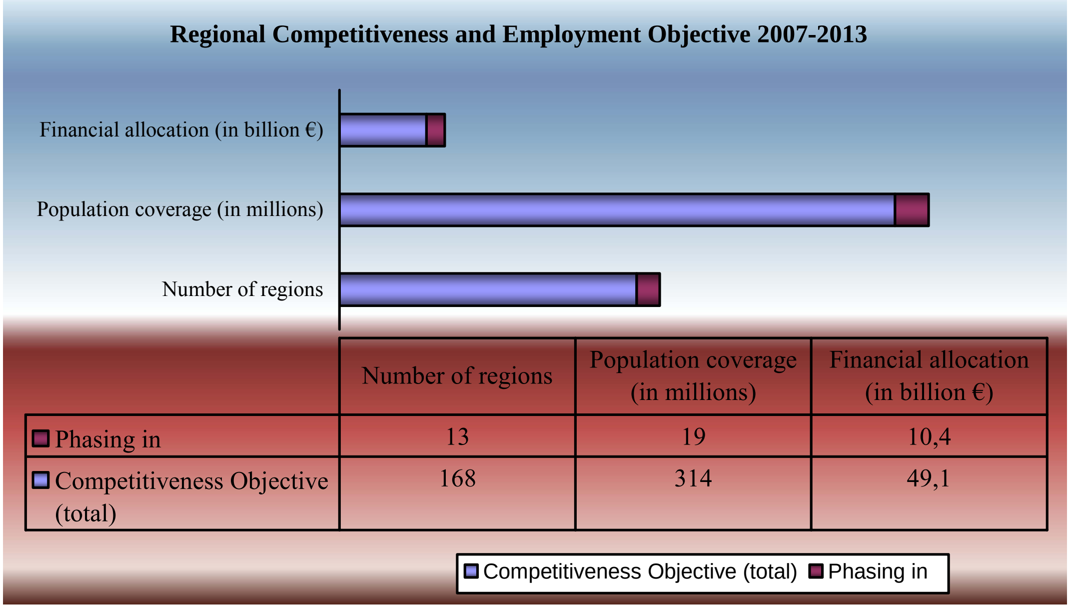
9 "The added value of the EU budget", Commission Staff Working Paper accompanying the Commission Communication "A budget for Europe 2020", Brussels, 29.6.2011 SEC(2011) 867 final.



For the post-2013 period, there are two issues relating to geographical concentration of support. First, with ever increasing pressure on public finances, it has been argued that better use can be made of resources allocated to richer regions. Although the Fifth Cohesion Report provides evidence to suggest that that there is a positive trend in the reduction of disparities across the EU[10], the extent to which this is due to the support given by cohesion policy is well debated in the literature. A second issue relates to the issue of transition regions. These regions have not yet completed their catching-up process. They continue to face significant social and economic challenges, and because of GDP/capita rates between 75% and 90% of the EU average, receive significantly lower aid intensities. The current 'phasing-in' and 'phasing-out' system is seen by most stakeholders to be overly complex and unfair, because regions with similar levels of GDP often find themselves in different categories as a result of their past status as a Convergence or Competitiveness region.

There is a strong case for cohesion policy to **concentrate on EU priorities**. The Europe 2020 strategy provides a clear set of common objectives, including headline targets and flagship initiatives, as a clear framework for identification of funding priorities. There is broad consensus among stakeholders on the role of cohesion policy in contributing to the achievement of the Europe 2020 Strategy[11]. 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.

(1) **Lack of concentration on strategic objectives**. A number of studies and ex-post evaluations of the 2000-2006 period have identified the issues of insufficient concentration on strategic objectives, lack of performance orientation and lack of incentives to promote concentration on delivering results. There have been attempts to

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[10] The number of regions covered from by the Convergence objective has dropped from 84 to 64 (or from 154.8 million people to 119.2 million people). The figures represent the shift from 2007-2013 to 2014-2020 in terms of number of regions leaving the Convergence Objective or rising above 75% EU average GDP.

[11] Council conclusions on the Fifth Report on economic, social and territorial cohesion, 3068th General Affairs Council meeting, Brussels, 21 February 2011.

address the issue of improving concentration on strategic priorities and objectives in the 2007-2013 period. However, these have had a limited impact. In large part, this has been due to the broad scope of investments laid down in the regulations from which Member States could select, but also to reluctance by Member States to narrow the selection down to just a few priorities. Whilst the introduction of earmarking[12] requiring the allocation of a major part of cohesion policy investments to the Lisbon priorities via an extensive list of spending categories was a step forward to ensure greater focus on European priorities, as several studies and reports have shown, the results have been mixed[13].

Need for concentration

During the 2007-2013 period, almost a quarter of regional policy funding, totalling some €105 billion, will co-finance projects which can support sustainable growth objectives, including improving energy performance of buildings, developing clean urban public transport, and fostering eco-innovation in regional clusters. This has been done through a variety of means, including innovative financing instruments such as JESSICA[14].

Nevertheless, there are still large funding gaps, particularly at local and regional level, that give rise to concerns as to whether Europe 2020 strategy headline targets can be met, at the lowest possible cost[15]. With regards to the climate change targets, only 10 Member States are projected to reach their national targets for GHG emission reductions in the agriculture, buildings, transport and waste sectors (sectors not covered by the EU emissions trading system (ETS)[16]. Further implementation of the EU climate and energy policy framework (Renewable Energy Directive, Effort Sharing Decision, Energy services directive, etc.) in EU regions is key in this process. Without it, the EU contribution to global climate action will be undermined, and regions, as well as the EU as a whole, will be deprived from innovation, employment and competitiveness benefits linked with moving to a low-carbon economy[17]. Even if the current 2020 targets in the non-ETS sectors were to be met, investments would be too low compared with the cost-effective pathway to reaching the EU's 2050 objective

12 The General Regulation for the 2007-2013 period required Member States to ensure that 60% of expenditure for the Convergence objective and 75% of expenditure for the Regional competitiveness and employment objective for all the EU15. Member States that joined after 2004 were encouraged to do this on a voluntary basis. The bulk of cohesion policy resources, around € 230 billion, have been earmarked for key Lisbon priorities, in cutting-edge research and technological development, innovation, information and communication technologies, business development and training.

13 "The Potential of Regional Policy Instruments 2007-2013 to Contribute to the Lisbon and Göteborg Objectives for Growth, Jobs and Sustainable Development", Nordregio, 2009 and Commission Communication, "Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013", COM(2010)110 final, 31.03.2010.

14 As of May 2011, JESSICA supports 7 Urban Development funds scheduled to invest €600 million in energy efficiency, renewable energy, clean transport in LT, UK, IT, DE, BG, in line with specific regional and local needs.

15 Regional policy contributing to Sustainable Growth in Europe 2020 – SEC(2011)92 final.

16 Bulgaria, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Portugal and Romania, cf. "Progress report 2010 towards achieving the Kyoto objectives" COM(2010) 569 final; and forthcoming "Progress report 2011" based on 'Annual European Union greenhouse gas inventory 1990–2009 and inventory report 2011'

17 Roadmap for moving to a competitive low carbon economy in 2050, SEC(2011)288 Impact Assessment.

of GHG emission reductions of 80 to 95%[18 19].

With regards to the effects on regional growth, without greater concentration on energy efficiency and renewable energy investments, the risk is that public and private investment in infrastructure is locked-in, inconsistent with a move to a low-carbon economy by 2050 at least cost. The effects on labour markets could also be significant, with greater demand for green skills and jobs[20] and potentially insufficient or untargeted R&D and innovation[21], putting growth at risk[22].

(2) **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. More recently, Member States have opted to focus cohesion policy resources away from the ESF, despite the effects of the global economic crisis on unemployment, poverty and social exclusion rates. For most Europeans, combating unemployment is a top priority for EU action, followed by the fight against poverty[23]. For many stakeholders, the European Social Fund is an essential EU instrument in efforts to raise employment levels and raise the skills and education levels of Europe's work force[24]. Yet, the overall financial allocation for the ESF has up until now not been decided at European level and has remained a matter of negotiation with and within the Member States, providing them with a considerable degree of flexibility to decide the division of allocations over the ERDF and ESF. As a result, funding volumes for the ESF are hard to predict, reflecting a gap between the political intentions expressed by the Council and the Parliament at European level regarding employment and inclusion policies and the actual funding to implement them and achieve their objectives at a national or regional level.

(3) **Lack of coordination**. Related to the problems mentioned above is the lack of coordination and complementarity between the different funds (ESF, ERDF and CF) and other EU policies and financial instruments, as well as Member State's own National Reform Programmes. On coordination, stakeholders often complain about

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18 Roadmap for moving to a competitive low carbon economy in 2050, COM(2011)112.

19 Model-based analyses conducted in the context of the 2050 low carbon economy roadmap show that in order to reach the non-ETS climate, and the renewables Europe 2020 headline targets, and to progress towards the headline target on energy efficiency and its 2050 climate objectives , a total of €125 billion additional investment compared to baseline is needed . The Directive on the promotion of the use of energy from renewable sources sets targets for each Member State aimed at increasing the share of renewables in final energy consumption in the EU to 20% by 2020. Achieving this target will have positive economic and employment effects. According to one study , the measures involved will lead to an increase in GDP of 0.24% and 410,000 net additional jobs. These investments relate to a wide range of technologies that improve energy efficiency, to renewable energy sources and related infrastructures. Such investments have huge potential to boost competitiveness and growth throughout the EU.

20 CEDEFOP(2010) Skills for green jobs European synthesis report.

21 JRC follow-up of Strategic Energy Technology Plan implementation: http://setis.ec.europa.eu/

22 OECD (2011), Towards Green Growth.

23 A Eurobarometer survey carried out in June 2010 revealed that Europeans see unemployment as a top priority for EU action out of a list of social and employment issues, followed by poverty in second place, Special EUROBAROMETER 350. The European Social Fund October 2010.

24 For example, in its Opinion on the future of the ESF, the European Parliament has pointed to the need to make the ESF more transparent as regards the allocation of funds, to give real visibility to European Union efforts to boost employment.

the complexity generated by overlapping schemes or by lack of coordination at the strategic level[25]. Successive evaluations have found that the links between cohesion policy strategies and National Reform Programmes require further improvement.[26] Part of the 'delivery gap' can be attributed to the lack of ownership of Lisbon priorities on the ground.[27] Current strategic programming need to be adjusted to increase EU added value through closer alignment of cohesion policy with Europe 2020 and Member State National Reform Programmes, including strengthening synergies with directly-managed EU financial instruments[28]. This alignment requires clearer guidance at European level, a more strategic negotiation process with partners at local and regional level, the Member State and the European Commission, and proper follow-up of progress made.

2.2. 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 tension between focusing on delivering the best possible results and having a predictable financial allocation over a seven year period with strict time-limited spending requirements. This is reflected in the limited development of mechanisms to reward performance and penalise non-effective use of funds. Up until now, implementation has focused more on successfully spending and managing funds and complying with control rules than on how effective interventions are.[29] This has led many stakeholders to call for a more results-oriented policy, emphasising what is to be achieved rather than regarding mere take-up of funds as success in itself.[30]

(1) Policy, regulatory and institutional framework conditions

The effectiveness of structural funds depends on sound policy, regulatory and institutional frameworks. In many sectors, a combination of strategic and regulatory conditions and public investment is needed to address bottlenecks to growth effectively. The Lisbon Strategy evaluation document[31] has found that "the impact of structural funds can be enhanced by

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25 Synergies between the EU 7th Research Framework Programme, the Competitiveness and Innovation Framework Programme and the Structural Funds": ITRE Committee, European Parliament, May 2007; How to make better coordinated use of FPs and Structural Funds to support R&D, CREST, May 2007

26 "the links between National Strategic Reference Frameworks, defining regional policy priorities, and National Reform Programmes, defining socio-economic priorities, has helped ensure greater coherence but could have been further developed" in Commission Staff Working Document, SEC(2010) 114 final, 2.2.2010, p. 5.

27 Ibid, p. 6.

28 Davies, S. (2011) "Interactions between EU Funds: Coordination and Competition", IQ-Net Thematic Paper No. 28(2).

29 Barca, F (2009) An Agenda for a Reformed Cohesion Policy. A Place-Based Approach to Meeting European Union Challenges and Expectations. p. 96.

30 The European Parliament stated in its opinion on the future of the European Social Fund that "a stronger focus on properly functioning labour markets and on social conditions is vital in order to boost growth and productivity and improve employment in Europe", European Parliament resolution of 7 October 2010 on the future of the ESF, B7-0535/2010. The Committee of the Regions has stated that “in order to have a clearer picture of the achievements of the policy and the structural changes generated, a reporting methodology must be agreed that focuses primarily on the results and secondly on the take-up of funds.” Opinion of the Committee of the Regions on Cohesion Policy: Strategic Report 2010 on the implementation of the Programmes 2007-2013. COTER-V-007.

31 "Lisbon Strategy evaluation document" Commission Staff Working Document, SEC(2010) 114 final, 2.2.2010

improving underlying structures (e.g. in research and innovation and/or labour markets), simplifying regulatory frameworks (e.g. business environment, infrastructure development) and by further strengthening administrative capacity and efficiency". Ex-post evaluations suggest that bottlenecks in policy and regulatory frameworks and administrative constraints limit the effectiveness of the funds.[32]

Absorption of the structural and cohesion funds also constitutes a particular challenge in some Member States. Experience shows that actual absorption heavily depends on institutional factors such as the capacity of the administration at national and regional level to plan and implement projects, inter-institutional cooperation and the availability of co-financing.

Gaps also remain with regard to transposition and implementation of EU legislation into national law in areas directly linked to cohesion policy. For example, the Monti report on the single market[33] has called for conditionality provisions to be introduced both to ensure the efficiency of cohesion policy, as well as to promote compliance with single market rules.

The concept of conditionality is not new within cohesion policy. Over successive periods, a number of mechanisms have been introduced to maximise efficiency and effectiveness. This has involved setting conditions in the regulations and writing commitments into programmes linked to pre-conditions for support. Most of the conditionalities have targeted management and control systems. Although some have been linked to strategic, institutional and administrative frameworks, their application has remained discretionary and unsystematic.

(2) Macro-fiscal framework conditions

The effectiveness of cohesion policy in promoting growth and convergence 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.

The current regulatory framework provides for macro-fiscal conditionality in the Cohesion Fund to reinforce the implementation of the stability and convergence programmes and avoid excessive deficits. Given that the lack of clear rules specifying the extent of suspension of the Cohesion Fund and that the political decision-taking process can be discretionary, and, this macro-fiscal conditionality provision has never been applied. There is scope to revise existing rules and to align them with the new enforcement measures of the Stability and Growth Pact to be adopted as part of the Sixth Economic Governance Package.

(3) 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 into domestic policies, particularly in areas of

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32 Ex post evaluation of cohesion policy programmes 2000-2006 co-financed by the ERDF. Working package 5a: Transport and Work package 5b. Environment and climate change

33 Mario Monti. "A New Strategy for the Single Market", Report to the President of the European Commission, 9 May 2010.

strategic planning, fostering an evaluation culture, and promoting performance orientation in national policies[34], a number of weaknesses still exist:

– Programmes are not precise enough on the objectives they aim to achieve, which makes it difficult to monitor progress and to evaluate their performance.

– Programmes often contain too many indicators. Member States are reluctant to set targets, or targets set are not sufficiently ambitious.

– Where objectives and targets are explicitly agreed in the programming phase, they are often not fully exploited in the management of the programmes.

– Achieving objectives and reaching targets is not linked to a system of rewards and sanctions for Member States.

In the current programming period, many of these problems persist. There is a lack of incentives to improve the performance of programmes in terms of reaching their objectives and targets, and tools to monitor progress are inadequate. There was a performance reserve in the 2000-2006 period at EU level, but the complexity of its rules and the lack of an appropriate methodology to assess progress achieved by programmes limited the success of its implementation. In the 2007-2013 period, Member States could apply performance reserves at national level on an optional basis. However, very few Member States have made use of this possibility.

Furthermore, despite there being strong conditionalities in cohesion policy in terms of compliance with implementation and transposition of EU legislation, financial management, audit and control, conditionalities applying to performance in cohesion policy are weak. As highlighted in the Communication on the multi-annual financial framework, conditionality provisions need to be introduced to "ensure that EU funding is focused on results and creates strong incentives for Member States to ensure the effective delivery of Europe 2020 objectives and targets through cohesion policy. Conditionality will 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. Lack of progress in fulfilling these conditions will give rise to the suspension or cancellation of funds"[35]. New mechanisms are needed to improve the performance of the policy with a more effective performance framework. A system of ex-ante-conditionalities and performance orientation needs to be supported by appropriate objectives, smart indicators, relevant benchmarks, robust monitoring and evaluation systems, and regular political debate on progress.

2.3. Problems related to the delivery of the policy

Sound, effective and efficient management of cohesion policy resources requires appropriate, effective and transparent structures in national and regional administrations. First, these structures need to facilitate achieving results by ensuring a high quality project selection and implementation. Second, there need to be enough audit and control structures to ensure that

[34] Ex post evaluation of cohesion policy programmes 2000-2006 co-financed by the ERDF. Worki package 11: "Management and implementation systems for cohesion policy".

[35] Communication "A Budget for Europe 2020", COM(2011) 500, 29.6.2011, p. 12

EU funds are well managed, and to prevent, detect and correct irregularities, and possible fraud. Thirdly, an efficient delivery system should be as simple and streamlined as possible.

The delivery of cohesion policy is implemented in the context of shared management. Implementation tasks are thus delegated to Member States along with the obligation to manage the programmes, to ensure the legality of expenditure and itsregularity (i.e. that it is spent on allowable items) and to protect the financial interests of the Union (by setting up of an effective control system). However, final responsibility for the EU budget remains with the Commission, which must fulfil its supervisory role and implement financial corrections where necessary. The right balance needs to be found between measures necessary to fulfil the Commission's responsibility vis-à-vis the EU budget and the administrative burden imposed on both Member State administrations and beneficiaries.

Administrative burden in cohesion policy

In the future, Cohesion Policy delivery systems should ensure effective spending and reliable financial management (including low error rates) without excessive administrative effort. Even though overall administrative costs for national authorities in 2007-2013 are expected to be comparable to those of other international development instruments (between 3 and 4 % of the total allocation of ERDF and the Cohesion Funds[36]), feedback from stakeholders indicates that distribution of administrative effort is not optimal.

Both ex-post evaluations and feedback from stakeholders reveal that the day-to-day management of cohesion policy programmes is perceived to be overly complex. However, a balance needs to be struck between simplification and reducing administrative burden and control requirements needed to address the risk of error and/or risk to the EU budget.

In terms of simplification and reducing the administrative burden for beneficiaries, evidence indicates that the heaviest costs are linked to the processes of applying for funding, everyday reporting by beneficiaries and storage of documents. The interaction between national authorities and beneficiaries is information-intensive – beneficiaries apply for funding, present payment claims supported by contracts and invoices, and report on progress in implementating projects. Despite progress in developing IT systems at national and regional level, communication is still predominantly paper-based. In many countries and regions, beneficiaries need to copy, submit and later retain substantial volumes of documents on paper. They may be asked to submit the same information more than once, as information is not shared within the administration effectively enough and is not available in an electronic format. This imposes a burden on beneficiaries. Considerable costs are associated with the transcription and aggregation of financial and monitoring data on paper and control costs can be higher than necessary, as supporting documents are not always easily available and accessible.

On the other hand, the issue of assurance on the regularity of expenditure co-financed from the EU budget is also of vital importance. The annual error rate reported by the European Court of Auditors is the most visible indicator of the effectiveness of national management and control systems in delivering assurance in the area of cohesion policy. For the past programming period, the rate has significantly exceeded the 2% level at which the European

36 Regional governance in the context of globalisation: reviewing governance mechanisms and administrative costs, Study commissioned by DG REGIO, 2010.

Court of Auditors considers errors to be material for its opinion on the EU budget. Although the rate looks set to be lower for 2007-2013 than for 2000-2006[37], it is still likely to stay above the 2% threshold. Thus, despite progress in strengthening control arrangements for cohesion policy, there is still scope to reinforce the assurance process.

A number of changes to the delivery system are needed to address this trade-off, particularly as regards: reimbursement options for beneficiaries, through more use of simplified costs; costs linked to the process of applying for funding and assurance provided by management and control systems.

2.3.1. Economic, social and environmental impacts

Quantifying the economic, social and environmental impacts of cohesion policy interventions is a complex exercise. This has led to a combination of different forms of analysis to assess the impact of cohesion policy: (i) econometric analysis of convergence models, (ii) macroeconomic simulation models and (iii) qualitative evaluation studies. Econometric analysis can to a certain extent capture the impact of cohesion policy on macroeconomic variables, such as GDP per head or productivity. However, it cannot disentangle the role of many different factors affecting growth. Macroeconomic models can capture the impact of the policy on a wider range of variables such as wages, prices or investments and allow for policy simulations. It is however based on a set of assumptions which partially determine the results. Qualitative evaluations examine the effects of cohesion policy on innovation capacity or quality of institutions, which are very difficult to quantify. This section provides a qualitative assessment of economic, social and environmental aggregate impacts for cohesion policy as a whole, based on the ex-post evaluations.

Economic impacts

Between 2000 and 2006, growth of GDP per head in the Convergence regions in the EU15 taken together averaged some 2% a year, as against growth of 1.4% a year in regions not receiving any assistance from the Structural Funds[38]. Growth of GDP per head in regions receiving significant amounts of funding under Competitiveness was also slightly higher on average than in non-assisted regions over the period. On average, Convergence and transition[39] regions have grown faster than Competitiveness regions. This suggests that high growth poor regions are catching up with the rest of the EU, a finding consistent with the fact that convergence among EU regions in terms of GDP/head has increased.

The ex-post evaluations for the 2000-2006 period found that enterprise support in cohesion policy is targeted particularly at small and medium sized enterprises and start-ups. There is also evidence that cohesion policy support has led to increased investment in companies and increased R&D activity. Moreover, an in-depth study of investment grants in Eastern Germany found that such grants were effective; each euro of grant generated €1.5 of extra investment or €1 of R&D[40]. Cohesion policy has also improved connectivity throughout Europe. In the 2000-2006 period, for example, the ERDF supported the building of 2,000 km of motorways – 24% of all motorway development in the period – and 4,000 km of rail.

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[37] European Court of Auditors Annual Report 2009

[38] With the sole exception of Belgium, where the one Objective 1 region grew by less over the period than non-assisted regions in the country. See Fifth Cohesion Report.

[39] Those regions with between 75% and 90% of average EU GDP per head.

[40] Ex-post evaluations 2000-2006.

Social impacts

In the area of employment and social inclusion, ex-post evaluations confirm that the ESF provides added value notably in Convergence regions. Member States reported that at least 1 million gross jobs were created in the companies supported in the 2000-2006 period. Across the EU-27, the ESF also contributed to galvanising policy change and agenda-setting, mutual learning, innovation, development of partnership, strategic and long-term planning. More specifically, between 2000 and 2008, the ESF trained about 10 million people per year. On average, the ESF reached nearly a third of the unemployed population in the EU each year. Evaluations identified that 40% of the unemployed receiving assistance from the ESF found employment. With regard to ESF support to systems and structure, there were ESF interventions in all EU countries, varying in extent. The ESF ex-post evaluation of the programming period 2000-2006 estimated that 65 % of the EU's working age population had access to better quality or more effective public employment services in 2006 as compared to before pre-2000, and that 68 % have access to better training possibilities. Improvements in education involved 25-30 % of the European population aged 6 to 18.

Environmental impacts

Cohesion policy has a strong impact on the environment. Ex-post evaluations for 2000-2006 reveal that cohesion policy contributed to improving the environment in line with EU Directives, especially in Convergence areas, making them more attractive places in which to live and work.

In the 2000-2006 period, the ERDF spent €25.5 billion, 21% of its total allocation, on environment-related interventions. Over 80% of environmental spending was concentrated in seven Member States. The main sectors of intervention were rehabilitation and planning (45%) and environmental infrastructure (44%), while environment-friendly technologies (7%) and energy infrastructure (4%) attracted less spending. In some Member States and regions, the ESF supported the development of skills in green jobs.

With regards to efforts to combat climate change, in the 2000-2006 period, 120 operational programmes supported investment with a total of €2.3 billion. These investments mainly targeted enterprises, either to create capacity for renewable energy production or to provide energy savings through new technologies. The evaluations indicate that the wider economic impacts of these investments were mixed. On the one hand, they can lead to increased competitiveness (e.g. improved energy efficiency, especially when relying on adequate financial instruments and strengthened innovation[41]); on the other, they can lead to decreased employment (especially in energy production, new technologies require less labour). In environmental investments, the ex-post evaluations often highlighted the lack of financial sustainability of investments. Environmental measures were often designed mainly to make progress in meeting the requirements of the acquis, without paying enough attention to the benefits they could bring as pre-requisites for sustainable development of the region.

Thus, analysis of economic, social and environmental impacts confirms that despite many successes, there are areas where improvement is needed, particularly in the design and delivery of the policy.

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[41] QUEST based modelling gives an insight into such impacts: What is the growth potential of green innovation? An assessment of EU climate policy options. DG ECFIN Economic Papers. 413. June 201

2.4. 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 set out in 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 in Article 175 of the TFEU which explicitly requests the Union to implement this policy by means of Structural Funds, and by 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 of the Treaty[42].

The policy already fully incorporates the principle of subsidiarity. Cohesion policy is implemented under shared management. National and regional authorities initiate the planning of interventions co-financed by the EU. After negotiation and adoption of operational programmes by the Commission, national and regional authorities make individual funding decisions and deliver the policy on the ground. Therefore, the different options put forward in this Impact Assessment will not change the general division of competences between the EU and Member States.

2.5. How would the situation evolve, all things being equal?

This section discusses what would happen in a no policy change scenario, all things being equal.

What cohesion policy delivers

The Commission's 5th Report on Economic, Social and Territorial Cohesion published in November 2010 shows that the EU's cohesion policy has made a significant contribution to growth and prosperity and promoting balanced development across the Union. The ex-post evaluations for the 2000-2006 period and other ongoing evaluations provide the following evidence:

– In the EU10 countries taken together, the models estimate that GDP in 2009 was almost 5% higher than it would have been without Structural and Cohesion Fund support, despite the short 2004-2006 programming period in these Member States.

– In the 2000-2006 period, 60% of the existing and new motorway network in the EU12 was co-financed by the funds, but needs remain significant. The density of the network in the EU10 was just 34% of the EU25 average in 2006, up from 31% in 2000.

– The rail network has improved significantly as a result of investments co-financed by cohesion policy. The funds contributed to the construction and upgrade of 7,260 km of rail in 2000-2006. For high speed rail, by 2006, 56% of all network increase was co-financed by the funds, while in some cases, such as Spain, the entire increase in the network was co-funded.

– Journey times have been significantly reduced, for example, between Rome and Naples (from 114 minutes to 65 minutes), Madrid and Malaga from 240 minutes to 160

[42] There are a number of other articles which define relevant other objectives, such as Article 8 and Article 10 which define horizontal objectives for all EU policies.

minutes.

- At least 1 million jobs were created in supported projects.

- An estimated 230,000 enterprises (mainly SMEs) received direct financial support, mainly grants but also loans or venture capital.

- An estimated 1.7 million enterprises (mainly SMEs) received advice, expertise and support for networking.

- Close to 20 million people now have access to improved water supply as a result of cohesion policy assistance in 2000-2006.

However, despite these achievements, there are still big development gaps between regions, particularly between Western regions and the others. The top ten are all in the West and are often capital city regions. At the other end of the spectrum, several regions in Bulgaria and Romania have levels of GDP per head below 30% of the EU-27 average. The lowest level is 26% in Severozapaden, Bulgaria. The Fifth Cohesion Report oulines these gaps.

Moreover, the scale and durability of achievements has been contested. Some research has found marginal or even negative impacts of cohesion policy on regional disparities or long-term growth[43]. Indeed, much research effort has gone into answering the question of whether cohesion policy intervention has met its objectives, with little clarity resulting. Recent independent analyses reach widely differing conclusions[44]. While cohesion policy has contributed to real convergence at the national level, especially when combined with a proper mix of national policies, there is little evidence to suggest that the EU transfers can be effectively used to ensure convergence at regional level.

Drivers of economic growth and disparities

The single market has also had significant effects both on economic growth and socio-economic disparities[45]. Nevertheless, studies differ on whether the growth effects are

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43 D. Tarschys (2011) "How small are the Regional Gaps ? How small is the Impact of Cohesion Policy ?", European Policy Analysis, January 2011. Basile R, de Nardis S and Girardi A (2001) *Regional Inequalities and Cohesion Policies in the European Union*, Documenti de Lavoro, Istituto di Studi e Analsisi Economica (ISAE), Rome. Boldrin M and Canova F (2001) Inequality and convergence in Europe's regions: reconsidering European regional policies, *Economic Policy* 16(32), 205-253. Dall'erba S and Le Gallo J (2003) *Regional convergence and the impact of European Structural Funds over 1989-1999,* Discussion Paper, Regional Economics Applications Laboratory, University of Illinois. Bachtler J and Gorzelak G (2007) Reforming EU Cohesion policy: reappraising the performance of the Structural Funds, *Policy Studies*, 28(4), 309-32.

44 While some studies find that, to a greater or lesser extent, the EU development effort since the 1989 reform of the Structural Funds has had almost no impact (e.g. Boldrin and Canova, 2001; García-Milá and McGuire, 2001; de Freitas et al., 2003; Dall'Erba and Le Gallo, 2007), others indicate that it has been a success (e.g. Cappelen et al., 2003). In between there are those who point out that the impact of the Structural Funds has been limited (e.g. Bussoletti and Esposti, 2004; Bouvet, 2009), mixed (e.g. Puigcerver-Peñalver, 2004; Eggert et al., 2007), or tends to vary according to differences in emphasis across development axes (Rodríguez-Pose and Fratesi, 2004) or from one geographical location to another (Antunes and Soukiazis, 2005; Percoco, 2005; Mohl and Hagen, 2008).

45 Baldwin R., and Wyplosz C. (2006) The economics of European Integration. Second edition, Bershire: Mcgraw-Hill Education; "Study on The impact of the Single Market on Cohesion: Implications for Cohesion Policy, Growth and Competitiveness", Study by LSE Enterprise on behalf of the London School of Economics and Political Science with consortium partners Vienna University of Economics

permanent, leading to a steady rate of growth, or offering temporary one-off effects. The Cecchini report[46] estimated that gains from the removal of customs barriers could account for a 4.5% to 7% increase in GDP within a few years. Other studies found that the dynamic, medium-run growth effect would induce higher savings and investment rates[47], and that the long-term welfare effects of the Single Market have been positive[48]; while other studies suggest that EU GDP is some 5% higher today that it would otherwise have been.[49]

Recent studies suggest that migration has a positive impact on GDP per capita as well as on productivity in the receiving region. As far as the unemployment rate is concerned, although migration is on average positively correlated with it, this effect remains insignificant. Migration had no significant impact on the convergence of unemployment rates in the years 2000 to 2007. Evidence from Commission research suggests that countries not applying transitional rules on free movement and therefore allowing incoming mobility benefited from a higher GDP growth[50].

In principle, the relationships between growth and cohesion are bi-directional. Integration processes like that of the EU lead to gains from trade and efficiency gains which – if coupled with policies which allow the re-deployment of freed resources and which preserve a suitable economic and regulatory environment – translate into higher growth. Yet the gains from trade arising from market liberalisation and integration may spread unevenly across nations, regions and/or populations.

The World Bank has underlined the importance of economic concentration as a main driver of economic progress within countries, a trend which has been observed around the world at all levels of economic development[51]. It acknowledges that proximity and geography matter for economic development. The policy framework outlined by its report highlights the need to focus on integration between lagging and leading regions (economic centres and periphery) rather than exclusively seeking to stimulate growth in lagging areas. Spatially connective policies including investments in infrastructure and provision of basis services in lagging areas have a key role to play in fostering economic development.

Thus both the objective and design of cohesion policy need to be adapted to meet the challenges generated by these trends. What would happen though if cohesion policy were to stay the same? It would continue to address the causes of structural disparities, through increased possibilities for economic and social development and reinforced competitiveness in the supported regions.

No change scenario[52]

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and Business, University of Helsinki and Centre for Social and Economic Research, final report expected October 2011.

46 Cecchini P (1988) 1992: The benefits of the Single Market (Aldershot: Wildwood House Limited).

47 Henrekson, M et al (1997) Growth effects of European integration, European economic review, 41(8): 1537-1557.

48 Allen et al (1998) The competition effects of the Single Market in Europe. Economic Policy 13(27): 436-486.

49 Eichengreen and Boltho (2008) The economic impact of European integration, CEPR Discussion Paper No. 6820.

50 Employment in Europe report 2008 "[...] estimate that mobility flows from the EU-8 have added an extra 0.4% to the Irish GDP and 0.3% to the UK's GDP by 2007 […]".

51 World Development Report 2009 "Reshaping economic geography".

52 This largely corresponds to Option 1 under the different problems.

In the poorer regions, the policy would continue to address framework conditions for sustainable development and growth. In a no change scenario, the bulk of cohesion policy funding would continue to be directed towards investments promoting national growth such as infrastructure, in particular through Trans-European Networks and secondary infrastructure, innovation, human resources and enterprise support. However, investments would be less focused on European priorities, particularly Europe 2020 objectives and targets.

In terms of geographical coverage, in a number of less developed Member States, richer capital regions would not fully benefit from cohesion policy support in growth-enhancing areas such as research infrastructure due to current eligibility rules. This might lead to the disconnection of national growth centres from poorer regions. A number of regions would drop out of Convergence support due to their successful development during previous funding periods. Over time, these regions would see a significant reduction of aid intensities. Lower aid intensities would limit the ability of these regions to counter the significant impact on economic restructuring.

In terms of EU added value, in the 2007-2013 period, cohesion policy has already been connected to the economic policy framework of the Union through the Lisbon Strategy for Growth and Jobs. However, the linkages between the Integrated Guidelines and cohesion policy priorities remain quite loose and the National Reform Programmes (NRPs) and National Strategic Reference Frameworks (NSRFs) vary considerably in their connections and complementarities. The NRPs and NSRFs often contain broad references to their shared goals but provide limited information on the contribution of cohesion policy to the NRPs[53]. Although the 2007-2013 period brought about a stronger alignment of expenditure with EU priorities set in the Lisbon strategy, current legislation maintains an environment where interventions can easily become fragmented and unfocused, diminishing the impact of the policy[54].

On the delivery side, cohesion policy programmes operate within a framework which involves strategic planning, addresses the geographical spill-over effects through territorial cooperation, and contributes to institutional capacity-building in regions and Member States. Nevertheless, there are weaknesses in the performance of cohesion policy and in its ability to deliver effectively and efficiently.

3. 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. Cohesion policy is a development policy aiming to promote long-term sustainable development in European regions. On the policy design side, this involves striking the right balance between ensuring that the delivery system for future cohesion policy should be as simple and streamlined as possible, focused on delivering results while still providing reasonable assurance that EU funds are managed in a sound manner. This involves, complying with the requirements of EU regulations, preventing and detecting errors and

53 European Commission (2010) Commission Staff working document: Lisbon Strategy evaluation document. Brussels, 2.2.2010 SEC(2010) 114 final, p. 6.

54 The ex post evaluations of Objectives 1, 2 & 3 and Community initiatives.

irregularities and assuring the legality and regularity of the expenditure declared to the Commission.

For the 2014-2020 period, the **specific objectives** are to assist Member States and regions to promote smart, sustainable and inclusive growth in line with the Europe 2020 strategy. This involves addressing the specific problems identified in section 2 through developing the basic conditions for sustainable growth (removing bottlenecks impeding growth), facilitating processes of structural adjustment and fostering integration by removing cross-border and transnational barriers, including on the external borders of the EU. Given the scope of this impact assessment, the specific objectives can be defined as ensuring that the Structural Funds and the Cohesion Fund are spent in:

– a way which provides a **high European value added** – (by either providing additional funding to existing national investments – in line with EU priorities - or by refocusing national or regional funds according to EU priorities).

– **an effective way** – which means they are used to achieve maximum impact.

– **an efficient way** – minimising inefficiencies from unnecessary administrative requirements or overly complicated procedures and incentivising the efficient use of resources.

These general aims translate into the following operational policy objectives:

– **concentrating** cohesion policy resources on developing the framework conditions for sustainable development and growth so as to achieve the highest EU added value;

– providing the appropriate mechanisms within the regulations to allow for **full alignment with the Europe 2020 strategy, objectives and headline targets**;

– ensuring **optimal coordination** between the Funds themselves and with other financial instruments;

– setting **clear and measurable targets**;

– striking the right balance between **low administrative costs/administrative burden** for managing authorities and beneficiaries, and **minimising the risk to the EU budget**.

3.1. Consistency with horizontal objectives of the European Union

Cohesion policy is an important expression of solidarity with the poorer regions of the EU. One of the greatest successes of the EU has been its capacity to raise living standards for all its citizens. It does this not only by helping poorer Member States and regions to develop and grow, but also through its role in the integration of the Single Market whose size delivers markets and economies of scale to all parts of the EU, rich and poor, big and small. A number of studies and evaluations have confirmed examples of added value and of growth and job-creating investment, could not have happened without the support of the EU budget. At a time when public money is scarce and when growth-enhancing investment is more critical than ever, changes to the policy are needed.

As outlined in the Communication on the multi-annual financial framework, the basic principles for the next generation of EU financial programmes and instruments will be a focus on results, increased use of conditionality and the simplification of delivery:

– **Results** need to be clearly related to the implementation of the Europe 2020 strategy and the achievement of its targets. This means concentrating programmes on a limited number of high-profile priorities and actions that achieve a critical mass. Fragmentation and uncoordinated interventions must be avoided. In this respect, cohesion policy needs to be redesigned to ensure integrated programming and a single set of mechanisms covering implementation, reporting and control;

– **Conditionality**: To improve the effectiveness of EU-funded policies and sharpen the focus on results, conditionality will be introduced into programmes and instruments. This is particularly relevant for cohesion policy, where Member States and beneficiaries will be required to demonstrate that (i) the right framework conditions are in place to ensure increased effectiveness, (ii) progress is made towards the achievement of objectives and targets set in the programmes and (iii) macro-fiscal conditions are not undermining the effectiveness of the funds.

– **Simplification:** The complexity surrounding current funding rules imposes a heavy administrative burden on beneficiaries as well as on the Commission and Member States, which can have the unintended effect of discouraging participation and delaying implementation. The rules governing delivery of the policy should be simplified.

The Communication on the Europe 2020 Strategy highlighted that "cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions"[55]. Cohesion policy provides the delivery system allowing the Commission to direct, in partnership with Member States and regions, large amounts of EU funds in support of Europe 2020[56]. Indeed, the focus on smart, inclusive, sustainable growth fits very well with the mission of cohesion policy and gives real content to the notion of harmonious development highlighted in the Treaty[57].

4. POLICY OPTIONS

The options appraised have been shaped by dialogue with stakeholders and the results of the ex-post evaluations. Options have been formulated for each of the three issues identified in the problem definition, delivering EU added value, effectiveness and efficiency.

The options have been included in the Impact Assessment to address each problem identified in accordance with the defined objectives, reflecting alternatives ranging from moderate adaptations of current arrangements to more fundamental changes.

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55 "EUROPE 2020 A strategy for smart, sustainable and inclusive growth Brussels", COM(2010) 2020, 3.3.2010.

56 Cohesion policy also acts as a powerful lever for the implementation of other EU policies. For example, Trans European Network projects; compliance with the environmental acquis and public procurement rules; RTD policy and its concerns with, in particular, research infrastructures and the development of human resources in research and innovation; climate action; education and training and adaptability of workers; equality between women and men and combating discrimination, rural development, support for cultural and creative industries as drivers of growth and business support policies, in particular for SMEs are supported by cohesion policy.

57 This led to the Communications on Regional Policy contributing to smart growth in Europe 2020 - COM(2010) 553 and on Regional Policy contributing to sustainable growth in Europe 2020 - COM(2011) 17 - 26/01/2011.

In its proposal for the multi-annual financial framework for the period 2014-2020, the Commission outlined a number of ways to strengthen the effectiveness of cohesion policy. The proposals summarized in the box below are reflected in the design of the options.

The key elements of the Commission proposal for the 2014-2020 financial framework include:

– introducing a **Common Strategic Framework**, which would cover the ERDF, ESF and Cohesion Fund but would also cover the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund, to ensure greater coherence between the different financial instruments and Europe 2020.
– in order to strengthen absorption of funding, fixing at 2.5% of GNI the **capping rates** for cohesion allocations, and providing a temporary increase in the **co-financing rate** by 5 to 10 percentage points when a Member State is receiving financial assistance in accordance with Article 136 or 143 TFEU thus reducing the effort required from national budgets at a time of fiscal consolidation.
– introducing a new category of region – **'transition regions'** to replace the current phasing-out and phasing-in system. This category will include all regions with a GDP per capita between 75% and 90% of the EU-27 average;
– **concentrating funding** on a limited number of priorities, with competitiveness and transition regions concentrating their allocation (except for the ESF) primarily on energy efficiency and renewable energies (at least 20%), SME competitiveness, and innovation, and convergence regions concentrates their allocation on a wider range of priorities;
– setting a minimum share of the structural funds support for **the ESF** for each category of regions (25% for convergence regions, 40% for transition regions, 52% for competitiveness regions).
– concluding a **partnership contract** with each Member State to use the funds to support Europe 2020 objectives and assessed through a performance framework;
– introducing a limited number of **ex-ante conditionalities** (which need to be fulfilled before funds are disbursed); and **ex-post conditionalities** (which will make the release of additional funds contingent on performance) as well as conditionality linked to the new economic governance framework.

The total proposed budget for cohesion policy 2014-2020 is €376 billion, including €40 billion for the Connecting Europe Facility for transport, energy and ICT.

4.1. Delivering EU added value

4.1.1. Option 1 – No policy change

Geographical coverage

Under this option, **geographical coverage would** remain as in the current period, covering all EU regions. Regions below the 75% average EU GDP per capita threshold would be subject to maximum support levels. The convergence objective would remain the focus of cohesion policy. Current convergence regions which exceed the 75% threshold would benefit from phasing-out support.

Table 1: Eligibility rules in Status quo

Status quo	current Cohesion Fund aid intensity for countries with GNI/head < 90% current Convergence aid intensity for regions with GDP/head < 75%

	phasing-out support for former convergence regions current aid intensity for the Regional Competitiveness and Employment Objective

Under this option, the number of convergence regions eligible for support would decrease (e.g. support would cease for some East German Länder and some Southern Spanish regions), while the overall number of Competitiveness regions would increase. Approximately 119 million EU citizens would be covered under the Convergence objective, 36 million citizens under phasing out and 339 million by the Regional Competitiveness and Employment Objective. Under this option, aid intensities would vary between €184 per capita in more developed regions to €1756 per capita in the lagging regions over a period of seven years. The total budget under this option would be €298 billion, reflecting the calculation methodology applied[58]. Under this option there would be a decline in the total amount for cohesion policy as compared to the 2007-2013 programming period as regions move from the Convergence to the Competitiveness objective or the phasing out regime with a lower aid intensity.

Table 1: Main financial characteristics of Option 1

	Budget allocation	Population covered (in millions)	Average aid intensity per capita (in €)[59]
Convergence Objective (lagging regions)	70.3%	119.2	1756
Phasing-out of Convergence	8.4%	35.6	699
Regional Competitiveness and Employment Objective (more developed regions in more and less developed MS)	21.3%	344.0	184
Total	100%	498.7	597

Concentration on EU priorities

Under this option, concentration on EU priorities is achieved through the earmarking of expenditure for Europe 2020 objectives: 75% in Regional Competitiveness and Employment regions, 60% in Convergence regions. At EU level, Community Strategic Guidelines provide a framework which Member States and regions are invited to use when developing national,

58 Different calculation methodologies using the Berlin method give a different impact on the EU budget.
59 Over 7 years.

regional, and local programmes. No effort is made to achieve further thematic concentration beyond the Guidelines.

Visibility and predictability of funding of the ESF

The ESF allocation is derived in two steps. In the first, the Commission defines the total allocation for each Objective (Convergence, Regional Competitiveness and Employment) and how it is divided between the Structural Funds (overall figure for the ERDF and the ESF) and the Cohesion Fund. In the second step, individual Member States and the Commission negotiate the amounts to be allocated to the ERDF and to the ESF, taking into account the programmes envisaged. The total ESF and ERDF allocations are then the sum of the shares in each Member State.

Coordination with other EU policies and financial instruments

This option foresees the continuation of the current strategic programming and coordination approach. It is based on three steps. At the EU level, the Community Strategic Guidelines (CSG) contain the cohesion policy priorities and the main principles of coordination with other EU policies and financial instruments. At Member State level, a National Strategic Reference Framework (NSRF) is drawn up, based on the principles laid down in the CSG. This document identifies the main priorities for ERDF, ESF and CF investments at national level. The Operational Programmes (OP) at regional and national levels are the main management tools, setting only broad principles on complementarities and demarcation with other EU funding schemes under shared management.

4.1.2. Option 2 – Growth-enhancing policy in line with Europe 2020 objectives

Geographical coverage

As with Option 1, under this option, all EU regions would be eligible for cohesion policy support. The eligibility rules would remain the same, except for regions above the 75% GDP/head threshold for convergence but below the 90% threshold. For these regions, there would be a new transition category, replacing the current statistical phasing-out and phasing-in regimes. It would cover regions "graduating" from the Convergence objective (as now), but also all other regions with a GDP between 75% and 90%.

Table 2: Eligibility rules in option 2

Option 2	current Cohesion Fund aid intensity for countries with GNI/head < 90% current Convergence aid intensity for regions with GDP/head < 75% transition category for regions between GDP/head of 75% and 90%. Aid intensity is differentiated between former convergence regions and all other regions which are part of this category current aid intensity for the Regional Competitiveness and Employment Objective

Under this option, nothing would change for the Convergence objective. However, the budget allocation and the population covered under the transition region category would be higher compared to the phasing out regime in Option 1. The proposal to create a transition category of regions is designed to soften the transition from being less developed to more developed and to ensure fairer treatment for regions with a similar level of economic development.[60] The total amount in Option 2 as compared to Option 1 would be slightly higher, due to more generous financial treatment of the transition regions as compared to the phasing-out regime. The total budget under this option would be €324 billion, reflecting the calculation methodology applied[61].

60 Fifth Cohesion Report, p. 13

61 Different calculation methodologies using the Berlin method give a different impact on the EU budget.

Table 2: Main financial characteristics of Option 2

	Budget allocation	Population covered (in millions)	Average aid intensity per capita (in €)[62]
Less developed regions	67.9%	119.2	1842
Transition regions	13.5%	72.4	604
More developed regions	18.6%	307.1	196
Total	100%	498.7	649

Table 3: Total proposed budget 2014-2020 in line with Option 2

Total proposed budget 2014-2020[63] All figures in constant 2011 prices Of which	€376 bn
Convergence regions Transition regions Competitiveness regions Territorial cooperation Cohesion fund Extra allocation for outermost and sparsely populated regions	€162.6 bn €39 bn €53.1 bn €11.7 bn €68.7 bn €926 million
Connecting Europe Facility for transport, energy and ICT[64]	€40 bn plus €10 bn ring fenced inside the Cohesion Fund

62 Over 7 years

63 Communication "A Budget for Europe 2020" - Part II: Policy fiches, Brussels, 29.6.2011 COM(2011) 500 final, p. 27.

64 The synergies between the Connecting Europe Facility for transport, energy and ICT and the ERDF and Cohesion Fund are discussed in the ERDF and Cohesion Fund Impact Assessment.

Concentration on EU priorities

Under this option, full alignment of cohesion policy to the Europe 2020 strategy would be ensured. This would be achieved through establishing a menu of thematic objectives directly linked to the Europe 2020 strategy and defining investment priorities for the funds. Table 4 shows that the thematic objectives are directly derived from the Europe 2020 headline targets and the Integrated Economic and Employment Policy Guidelines.

Table 4. Europe 2020 strategy and cohesion policy

Integrated Economic and Employment Policy Guidelines	Thematic objectives	Europe 2020 headline target
Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy (IG4)	Strengthening research, technological development and innovation Enhancing accessibility to and use and quality of information and communication technologies	R&D 3% of GDP
Improving the business and consumer environment and modernising the industrial base (IG6)	Enhancing the competitiveness of SMEs	
Improving resource efficiency and reducing greenhouse gas emissions (IG5)	Supporting the shift towards a low-carbon economy in all sectors Promoting climate change adaptation and risk prevention Protecting the environment and promoting the sustainable use of resources Promoting sustainable transport and removing bottlenecks in key network infrastructures	20% reduction of GHG emissions 20% increase in energy efficiency 20% increase in production of renewable energy
Increasing labour market participation and reducing structural employment (EGL7) Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning (EGL8)	Promoting employment and supporting labour mobility	75% employment rate (women and men) including greater participation of young people, older workers, low-skilled workers and better integration of legal migrants
Promoting social inclusion and combating poverty (EGL 10)	Promoting social inclusion and combating	Lift at least 20 million people out of the risk of poverty. in addition to national targets

Improving the performance of education and training systems at all levels and increasing participation in tertiary education (EGL 9)	Investing in education, skills and lifelong learning	At least 40% 30-34 years old having completed tertiary education; reduce school drop-out rates to less than 10%

Concentration on EU priorities will be reinforced by setting minimum shares of structural funds support in certain policy areas. Given the important contribution of the ESF to three headline targets, minimum ESF shares of the structural funds support will be set in the Regulation of 25 % in less developed regions, 40 % in transition regions and 52 % in more developed regions. In addition, more developed and transition regions will need to allocate at least 20 % of their total ERDF allocation at national level to the thematic objective supporting shift to the low carbon economy and 30 % to each of the thematic objectives of research, innovation, and SME competitiveness, respectively. Less developed regions would be able to devote their allocation to a wider range of objectives reflecting their broader range of development needs.

How concentration works

Concentration on EU priorities will take place at different levels:

– The Regulation establishes a list of thematic objectives for the ERDF, ESF, CF, EAFRD and EMFF in line with the Europe 2020 strategy (Table 4).

– The Fund specific Regulations will set detailed investment priorities for the ERDF, the ESF and the Cohesion Fund directly linked to the thematic objectives defined in the menu.

– At the level of the operational programme, a priority axis would directly correspond to a thematic objective and include one or more investment priority, and concern one Fund only.

– Given the contribution of the ESF to three headline targets, minimum ESF shares will be set. Less developed regions will need to allocate at least 25 %, transition regions at least 40 % and more developed regions at least 52 % of their structural funds support to the ESF.

– At least 80% of ERDF support is focused on energy efficiency and renewables, research and innovation and SME support in more developed and transition regions of which 20% for energy efficiency and renewables. Given the ongoing restructuring needs in those regions phasing out from the Convergence objective, the minimum percentage shall be reduced to 60%.

– At least 50% of ERDF support is focused on energy efficiency and renewables, research and innovation and SME support in less developed regions of which 6% for energy efficiency and renewables.

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– In the case of the ESF, more developed regions will need to concentrate 80 % of their allocation to each operational programme on up to four investment priorities, while transition regions will need to do so at 70 % and 60 % respectively.

– During the negotiations with Member States on the Partnership Contracts and operational programmes, the Commission will ensure that the funds are concentrated effectively on the thematic objectives and investment priorities selected.

Coordination with other EU policies and instruments

This option would provide a close alignment with the Europe 2020 governance structure. The Common Strategic Framework (CSF) would be a framework within which a) the mechanisms of coordination between the funds under shared management (ERDF, ESF, CF, EAFRD, EMFF) were outlined, and b) cohesion policy investment priorities in relation to other EU policies and financial instruments were outlined, including other EU policy frameworks such as the common research framework for research and innovation (Horizon 2020) and other financial instruments such as LIFE+, Education Europe and Culture Europe. The CSF would translate the Europe 2020 headline targets and objectives into investment priorities which Member States and regions would be obliged to use when developing the Partnership Contract and the programmes.

The Partnership Contract would set out the development strategy and defines the national investment priorities and the allocation of resources between priority areas and programmes (in line with priorities and macro-structural bottlenecks identified in the National Reform Programme). The main management and implementation tool would remain the operational programmes.

4.1.3. Option 3 – Convergence policy for lagging Member States

Geographical coverage

A more radical option would be to make cohesion policy support available only to Member States with an average GNI/head of less than 90% of the Union's average per capita. Phasing-in and statistical phasing-out regions as well as Competitiveness regions would not be eligible for cohesion policy interventions.

Table 3: Eligibility rules option 3

Option 3	current aid intensity for countries with GNI/head < 90%

Under this option, 28% of the EU's population would be covered. The financial allocation for cohesion policy would be much lower than in options 1 and 2 with an allocation of €198 billion[65]. The option does not take a view on what will happen with the savings on cohesion policy as compared to options 1 and 2. The difference in allocations could be used for other purposes in the EU budget or represent a general EU budget saving.

Table 3: Main financial characteristics of Option 3

[65] Different calculation methodologies using the Berlin method give a different impact on the EU budget.

	Budget allocation	Population covered (in millions)	Average aid intensity per capita (in €)[66]
Total	100%	113	1756

Concentration on EU priorities

Under this option, there would be no obligatory thematic concentration on EU priorities. Given that cohesion policy support is restricted to Convergence regions, they would be able to devote their allocation to a wide range of objectives reflecting their broader range of development needs. Thus, even under this option, cohesion policy could to a significant extent be aligned with the Europe 2020 targets and objectives.

Visibility and predictability of funding for the ESF

Under this option, the minimum allocations of the ESF are calculated taking into account how far each region and Member State eligible for cohesion policy support is from meeting Europe 2020 headline targets on employment, education and social inclusion. The ESF allocation would take into account the target for employment (75% of the 20-64 years old in employment), education (reducing school drop-out rates below 10%, and at least 40% of 30-34-year-olds completing third level education) and poverty (at least 20 million fewer people in or at risk of poverty and social exclusion).

Coordination with other EU policies and instruments

There would be no Guidelines specific to the funds such as the current Community Strategic Guidelines. The Integrated Guidelines would serve as the strategic reference framework for cohesion policy at EU level.

4.1.4. Excluded options

On **geographical coverage**, an option which would provide cohesion policy support only for the poorest regions has been excluded. This option is not significantly different from Option 3, which would provide cohesion policy support for the poorest Member States. It would not provide any specific mechanisms for alignment with Europe 2020, Europe's growth strategy for the next decade. Among the different options considered, there are strong differences of opinion among stakeholders. Those in more developed Member States would support this option, while those in less developed Member States would not.

4.2. Increasing the performance of the policy

The following options examine how the performance of cohesion policy can be improved with regard to incentives and conditionalities. The options are differentiated between those that are internal (directly linked to cohesion policy) and external (those outside the areas

66 Over 7 years.

where cohesion policy invests). It should be noted that the three options detailed below are not mutually exclusive and combinations could be envisaged.

4.2.1. *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).
- Procedure compliance, for example the approval of management and control systems or conditionality related to spending, such as the automatic decommitment rule (N+2).
- Compliance with sectoral EU legislation directly applicable to investment and some, albeit limited and unsystematically applied, thematic conditionalities linked to strategic frameworks.

Under this option, there are no provisions in the Common Provisions Regulation relating to **performance**. The timing and method of evaluations is left up to Member States and performance is not rewarded, with the exception of an optional performance reserve of maximum 3% of the cohesion policy allocation at Member State level.

4.2.2. *Option 2 – Ex-ante conditionality*

Ex-ante conditionality requires the fulfilment of preconditions before the adoption of programmes related to strategic, regulatory and institutional frameworks as well as to policy delivery in accordance with EU policy guidance. Strategic preconditions are linked to overarching national and/or regional strategies for investments in the field of, for example, research and innovation and education. Regulatory preconditions primarily relate to the transposition and implementation of EU legislation, while institutional preconditions relate to the effectiveness of institutional and administrative structures; which are also key determinants of the capacity of Member States and regions to absorb the funds.

For the relevant thematic objectives, the assessment of the fulfillment of the preconditions will be based on the Europe 2020 thematic surveillance. This implies that in case a Council recommendation is issued in the framework of the European semester which is directly linked to a conditionality provision, the assessment of the fulfilment of the precondition will take into account the progress made on implementing the Council recommendation. Such approach will ensure greater alignment between Europe 2020 and cohesion policy governance and monitoring processes.

The preconditions might often be in place before adoption of the new generation of programmes. However, in some cases, depending on the specific regional and national context, further changes or adjustments might be necessary and tied to a binding action plan by Member States and regions. The actual implementation of the commitments would be monitored in the framework of the Partnership Contracts and operational programmes.

4.2.3. *Option 3. Performance framework and performance reserve*

Under this option, a performance framework would be established showing the intended pace of progress towards objectives and targets set at the beginning of the period by putting in place intermediate targets – "milestones". The milestones would be linked to expenditure, commitments, outputs and where appropriate, results. These could include, for instance, output indicators (e.g. number of cooperation projects between enterprises and research institutions) or results (e.g. number of new employer enterprises started). The performance framework would be agreed between the Commission and Member States during negotiation of Partnership Contracts and programmes.

The **performance reserve** would be allocated to the Member State for priority axes that achieve their milestones. The disbursement of the reserve would be part of a performance review (with possible review points in 2017 and 2019) to assess whether programmes achieve their milestones. Member States would be given flexibility to allocate the additional funds to the priority axis which attained their milestones.

The performance framework could also be the basis for a **peer review process** in the context of a high-level political debate for debating and reporting on results. The strategic reporting introduced in the 2007-2013 period could form the basis for the political debate.

4.2.4. Option 4. Strengthened macro-fiscal conditionality

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

(i) Effective application of existing Cohesion Fund conditionality could be ensured by revising the current provisions for its implementation, such as potentially earlier triggers in the EDP, or progressive suspension of an increasing share of commitments in the case of repeated breaches of the SGP, based on objective and transparent ex ante provisions. More automatic political decision-making would be achieved through obliging the Commission to recommend suspension of commitments once the relevant decisions in the EDP had been taken and reverse majority voting in the Council.

(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.

In the event of exceptional economic circumstances or following a reasoned request by the Member State, the Commission could recommend reducing the share of commitments to be suspended and could also propose to postpone the date of entry into force of the suspension.

4.2.5. Option 5. Combined ex-ante and ex-post conditionality

This option combines all the elements of Option 2, Option 3 and Option 4 including (i) ex-ante conditionality, (ii) the performance framework and the performance reserve and (iii) strengthened macro-fiscal conditionality. It will focus on enhancing performance through ensuring adequate strategic, regulatory and institutional conditions for the use of the funds, sound macro-fiscal policy frameworks as well as mechanisms to incentivize the actual performance of the programmes in terms of reaching their objectives and targets set.

How would option 5 work in practice

– ***Ex-ante conditionality***: The Regulation would define a list of thematic and general ex-ante conditionalities to be fulfilled prior to adoption of the programmes. Member States would assess whether the ex-ante conditions are fulfilled in relation to the thematic objectives selected. Where ex-ante conditions are not fulfilled, Member States would lay down a series of actions and timetable for implementation in their programming documents. The Commission may decide to suspend all or part of interim payments pending satisfactory completion of the action. Failure to complete actions would result in suspension of payments. Details of the mechanism are outlined in Annex 3.

– ***Performance framework*****:** Member States would establish a performance framework in their programming documents consisting of milestones set for each priority axis for 2016 and 2018 and targets for 2022. 5 % of the allocation to a programme would be set aside. Milestones would include financial indicators, output indicators and where appropriate result indicators. A performance review in 2017 and 2019 will examine the achievement of the milestones. Where the review shows that a priority axis has not attained its milestones set for 2016, the Commission may make recommendations to the Member State concerned. On the basis of the 2019 review the Commission would decide to allocate the performance reserve to each Member State by fund and category of region.

– ***Macro-fiscal conditionality:*** Where the Council decides in accordance with Article 126(6) of the Treaty that an excessive deficit exists, support from the Cohesion Fund (and possibly from the structural funds) shall be conditional on measures taken to correct it. If in accordance with Article 126(8) or Article 126(11) of the Treaty the Member State has not taken effective action to correct an excessive deficit, the Commission shall recommend to the Council to suspend a part or the totality of outstanding commitments. The suspension shall be lifted if the Council decides to abrogate the decision on the existence of excessive deficit. Details of the mechanism are outlined in Annex 4.

4.3. Streamlining delivery and minimising the risk of error

As outlined in Section 3.3, streamlining delivery involves two main elements: first, balancing the trade-off between reducing administrative costs and administrative burden and minimising the risk of error and risk to the EU budget, and second, improving coordination between the different Structural Funds.

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

4.3.1.1. Option 1 – No policy change

– Reimbursements made on real costs; some optional simplified cost options

– No substantial guidance on e-Governance at EU level for cohesion policy implementation

– National accreditation of management and control systems with 100% review by Commission

Under this option, reimbursement is based mainly on real costs. The use of simplified cost options (flat rates, standard scales of unit costs and lump sums) is allowed, but optional. The use of simplified cost options always requires development of a regional/national methodology to underpin the rates to be used.

On **e-governance,** there is no substantial guidance at EU level to simplify implementation of cohesion policy.

Ex-ante verification of the compliance of national **management and control systems is carried out at national or regional level** with a "blanket" review by the Commission for all Operational Programmes (accreditation at national level with a 100% review by the Commission). Interim payments are initiated subject to a positive review.

4.3.1.2. 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)

Under this option, beneficiaries would be able to choose whether they opt for payments based on real costs or payments by deliverables. A "soft" approach to the development of e-Governance in the implementation of cohesion policy would be based on extensive guidance at EU level and exchange of good practice facilitated by the Commission. Under this option, there would be ex-ante verification of the compliance of national management and control systems at national level without any ex-ante review by the Commission (pure national accreditation). Interim payments would be initiated upon notification of national accreditation. The Commission's role would be limited to ex-post audit of management and control systems and the application of financial corrections where errors are detected.

4.3.1.3. Option 3 - Prescriptive approach

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

Under this option, payments to projects would be based only on deliverables with corresponding amounts agreed beforehand. In terms of e-governance, there would be mandatory use of standard IT systems developed at EU level for both national authorities and beneficiaries. In terms of management and control systems, this option would involve an independent Commission review of national management and control systems prior to the start of implementation, without the involvement of national audit bodies.

4.3.1.4. 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

Under this option, the two options for the reimbursement system (real costs/simplified cost options) would be kept, but with additional possibilities facilitating the use of simplified cost options and reinforcing a more results-based approach. For example, this could involve the introduction of flat rates at EU level, acceptance of rates set for other EU funding instruments or application of existing national funding models, allowing part of the operational programme to be financed on the basis of results. The detailed possibilities could vary according to the specific types of operations and Funds.

In terms of e-governance, there would be mandatory development of e-Governance applications at national or regional level. There would be ex-ante verification of the compliance of national management and control systems at national level with a selective, risk-based, review by the Commission. The Commission would carry out a review of the national accreditation process. However, there would be exemptions for Operational Programmes of low financial volume (e.g. public contribution below €250 million), and for management and control systems that have delivered consistently good results during the previous programming period (the latter could still be subject to Commission review upon request by national/regional authorities i.e. on a voluntary basis). Interim payments would be initiated upon notification of national accreditation, but could be immediately interrupted where the Commission review indicated significant deficiencies.

4.3.2. Coordination between cohesion policy instruments

EU instruments, and particularly those in shared management, have to work closely together, if they are to translate the goals and objectives of Europe 2020 into development on the ground. This is particularly the case for the ERDF and ESF which together intervene across the full range of Europe 2020 objectives. Cohesion Policy has to play an important role in encouraging different management authorities at national, regional and local level to work together more closely to find integrated solutions to the policy challenges facing them.

4.3.2.1. Option 1 – No policy change

In terms of **coordination between cohesion policy instruments**, 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. The scope of the ESF focuses on investments in human capital while the ERDF focuses on support for productive investment, infrastructure and the development of endogenous potential. The scope of the Cohesion Fund includes investments in the fields of environment and trans-European Networks. The Cohesion Fund is fully integrated with the ERDF in the programming of funds.

At operational level, "cross-financing" of certain investments is allowed thanks to a flexibility clause. This makes it possible for the ESF or the ERDF to finance actions within the scope of the other fund, up to a maximum of 10% (15% for social inclusion and urban actions), provided that (1) they are necessary for satisfactory implementation of the operation; and (2) are directly linked to it.

4.3.2.2. 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, in particular where the need for improved coordination of human capital and infrastructure investments is greatest.

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 to ensure coherent support for the different thematic objectives under cohesion policy.

The ESF would bear primary responsibility for supporting investments in human capital through all levels of education, labour market participation, employability and the fight against unemployment, promotion of entrepreneurship, lifelong learning, social inclusion and related investments for development in education, training and care systems. The ERDF would bear primary responsibility for investments in R&D and innovation, business support mainly to SMEs, key network infrastructure, the shift to a low carbon economy, renewable energy and energy efficiency, promotion of sustainable transport, sustainable use of resources, and for sustainable urban development.

4.3.2.3. Option 3 – One policy, one fund approach

A more radical option would be the 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**. The delimitation between the ERDF and ESF would be done by broad policy area. This option would also attempt to minimise overlaps by clarifying the two funds' existing scope of intervention. Their scope and priority articles would focus on policy areas rather than types of actions. For instance, in employment, education (including tertiary education) and social inclusion, the European Social Fund would invest in corresponding infrastructure, provided these investments were necessary to reach the strategic goals agreed in the Operational Programme. The same policy approach would apply to the ERDF, for areas such as innovation, support to firms, research and environment.

The Cohesion Fund would continue to focus – as in the current period – on trans-European transport networks and on implementation of the environmental acquis, including energy efficiency and renewable energies.

5. ANALYSIS OF IMPACTS

The analysis of options is based on qualitative assessments with supporting facts and statistics. Where possible, the impact analysis has relied on modelling results, particularly for the options of geographical concentration and for aspects of thematic concentration. The modelling analysis uses three models to best explore their comparative advantages and complementarities[67]. In particular, a few things should be noted:

[67] The estimates of financial allocations are based on the current allocations (2007–2013). It should be noted however that the decline in the total amounts as compared to the 2007-2013 programming period

– The eligibility criteria used for analysing the difference options takes on board the latest available statistics, the latest for which is 2008[68].

– The modelling results uses assumptions for which the latest data available for eligibility and population cover was 2005, 2006 and 2007.

– The main differences of results between the options are driven by the overall allocations used in the modelling[69], the distribution between different categories of regions as well whether concentration is applied or not. These assumptions differ between the options.

– As regards thematic concentration, the models use different methodologies to distinguish between investments in R&D, innovation and human capital. The modelling assumptions and parameter are explained in more detail in Annex 2.

However, given the methodological limitations of the models and the fact that the latest data is only available as far back as 2008, the results have been used with prudence.

5.1. Delivering EU added value

5.1.1. Option 1 – no policy change

Under this option**, geographical coverage** would still change compared to the current period, since a number of regions would have left the Convergence Objective due to an increase in their average GDP/head. As mentioned above however, timing is an issue. If the modelling work had been carried out in 2012 as opposed to 2011, the impact of the economic crisis could have been taken into account. This could lead to different results because some regions could have rejoined the Convergence objective. Modelling results of this option demonstrate the positive effect of cohesion policy interventions both in less and more developed regions, particularly in the longer run. The results of the Quest model indicate that a number of Member States, particularly net contributors, would see little change in growth due to the transfer of resources to less developed Member States.

Nevertheless, compared to a scenario of no cohesion policy at all, growth among net contributor Member States would pick up by 0.1% in the medium term. This would primarily be due to their own regions being covered by cohesion policy. Furthermore, investments in less developed regions would create spill over effects for more developed regions primarily through expansion of trade. However, these effects would be noticeable only over the longer term. Growth in the less developed regions would be boosted by 1.8% more than without cohesion policy. Growth across the EU-27 would be about 0.22% higher than without cohesion policy. The other models show similar patterns of results. The HERMIN model results show very similar patterns in growth as well as in employment creation. Similarly GTAP results show a distinctly positive pattern on EU-27 growth with full geographical coverage.

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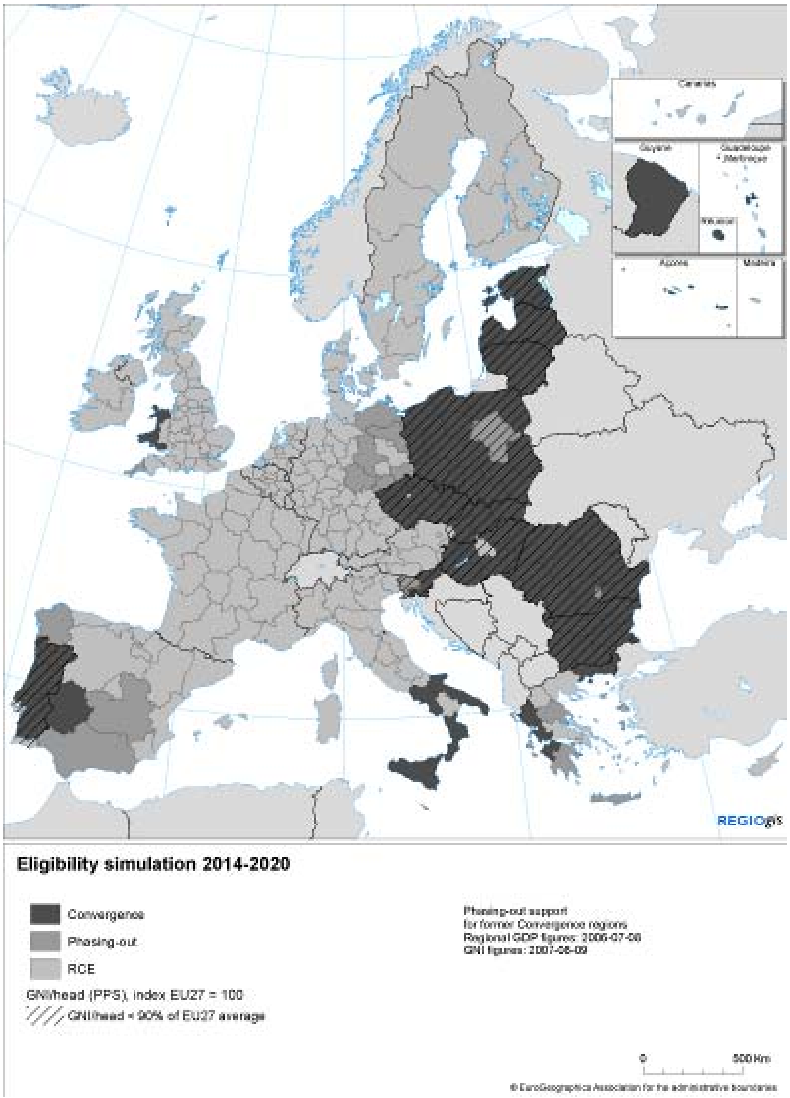
is due to the regions moving from the 'Convergence' objective to the 'Competitiveness' or the 'Phasing-Out' regime which imply a lower aid intensity. The total amount in Option 2 as compared to Option 1 is due to the extended transitional arrangements.

68 The modelling results and calculations behind the options were drafted in Spring 2011 using the latest available data, the latest for which is 2008.

69 The assumed cohesion policy spending is based on regional GDP and population statistics of 2005, 2006 and 2007. Option one assumes €301.6 billion; option 2 with €310.8 billion and option 3 with €235.7 billion.

Other studies have shown the direct and indirect impacts for EU15 Member States as a result of cohesion policy investments in the EU12. For example, a study has shown that around 8% of the total contract volume in Poland went to EU15 companies, with enterprises from Germany by far the biggest important group[70]. In a similar study, both direct and indirect benefits for EU15 Member States from contracts won through cohesion policy investments in the Czech Republic are estimated to be around € 6.5 billion[71]. Thus, the direct rates of return on investments as well as indirect effects such as spillover effects of cohesion fund support could be expected to rise over time.

Map 1: Geographical coverage under status quo



In terms of **concentration on EU priorities**, alignment of the funds with the Europe 2020 Strategy through earmarking has added value compared with no alignment, but with varying results. There has been a clear shift in focus towards the Lisbon (now Europe 2020) Strategy

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70 Instytut Badan Strukturnalnych, Assessment of the benefits drawn by EU15 countries as a result of Cohesion Policy Implementation in Poland (2009).

71 Study commissioned by the Ministry of Regional Development (2010) "Evaluation of the benefits drawn by EU-15 countries as a result of cohesion policy implementation in the Czech Republic".

and objectives. The bulk of cohesion policy resources[72] (around €230 billion) in the current period have been earmarked towards so-called Lisbon investments. However, earmarking[73] cohesion policy investments in line with Lisbon/Europe 2020 priorities has had other drawbacks. Earmarking has taken the focus away from delivering EU targets and the impact of spending on these targets, and has instead placed emphasis on categories of expenditure. It could be argued that through earmarking, "the strategic focus is reduced to a rather crude measure of expenditure".[74]

With regards to climate change investments, under this option, it is unlikely that regions would build up skills, notably in the transport and energy sectors, at the pace required to invest as needed in a low-carbon economy, as many have little experience and administrative capacity in place. Nor would they be likely to have the ability to anticipate employment opportunities and identify green skill needs not yet available throughout the EU[75]. Thus, under this option, there would be a risk of undermining progress towards EU climate targets, missing significant economic benefits from a stronger internal market and weakening a growing eco-industry[76], whose value chains are integrated across regions[77].

Under this option the **ESF's share of the overall cohesion policy allocation** might continue its downward trend. The main advantage of this option would be the flexibility for Member States to negotiate ERDF and ESF allocations according to their priorities. The main drawback would be the lack of sufficient resources in favour of employment, education and social inclusion, reflecting a gap with the political intentions expressed by the Council and the Parliament at European level and a risk that the right policy mix is not achieved.

In terms of **coordination with other policies and financial instruments**, at EU level, the Community Strategic Guidelines provide guidance, but given that they are non-binding, they have a limited effect in aligning spending with EU priorities. At Member State level, the National Strategic Reference Frameworks, designed to align cohesion policy investments with the objectives laid out in the National Reform Programmes, do not have a strong focus on results, and have failed to specify clear objectives and targets.[78] As highlighted in the Barca report and ex-post evaluations, the allocation of funds tends to become fragmented and

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72 ERDF, Cohesion Fund and ESF.

73 The General Regulation for the 2007-2013 period required Member States to ensure that 60% of expenditure for the Convergence objective and 75% of expenditure for the Regional competitiveness and employment objective for all the EU15. Those Member States that joined after 2004 were encouraged to do this on a voluntary basis. The bulk of cohesion policy resources - around € 230 billion – have been earmarked in favour towards key Lisbon priorities - in cutting edge research and technological development, innovation, information and communication technologies, business development and training.

74 Bachtler, J., Mendez, C.: The Reform of Cohesion Policy After 2013: More Concentration, Greater Performance and Better Governance? pp. 27-28.

75 Cf. EMCO Towards a greener labour market – The employment dimension of tackling environmental challenges (2010).

76 Study on the Competitiveness of EU Eco-industry, DG ENTR, 2009.

77 Cf. p.28 Wind project in BE will use turbines from DE-based manufacturer, blades from DK supplier. UNEP Global Trends in Renewable Energy Investment 2011 Analysis of Trends and Issues in the Financing of Renewable Energy.

78 Barca, F (2009) An Agenda for a Reformed Cohesion Policy. A Place-Based Approach to Meeting European Union Challenges and Expectations. p. 162.

EU priorities are not always sufficiently addressed.[79] Thus, this option is not ideal in terms of delivering EU added value and other approaches would need to be considered.

Stakeholder views of this option

Stakeholders are largely supportive of continuing full coverage, but stress the need for a simpler, more streamlined policy. There is general support for better coordination and synergies with other EU financial instruments and policies, but many respondents stressed the need for cohesion policy to keep sufficient flexibility to take into account the regional and local context. Respondents were generally in favour of keeping the same budget heading for the ESF and ERDF, with financial allocations negotiated between the European Commission and Member States (as is currently the case).

5.1.2. Option 2 – Growth-enhancing policy in line with Europe 2020 objectives

Under this option, **geographical coverage** would result in a change of population coverage compared to the 2007-2013 period, due to the successful development of a number of regions. About 64 regions would be covered under the Convergence objective, against the current 84. The population living in less developed regions would be 34 million lower than in the current period. The intermediate objective would cover 51 regions as compared to the 28 phasing-in and phasing-out regions in the current financial period (Option 1) and cover about 37 million more people. The highest number of regions and population covered by this objective would be in France, Germany and Spain followed by the UK and Poland. The category of more developed regions which receive low aid intensities would stay relatively stable with 156 regions and 307 million people.

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79 Barca, F (2009) An Agenda for a Reformed Cohesion Policy. A Place-Based Approach to Meeting European Union Challenges and Expectations. p. viii.

Map 2: Geographical coverage under Option 2 (i.e. full coverage with intermediate category of regions)

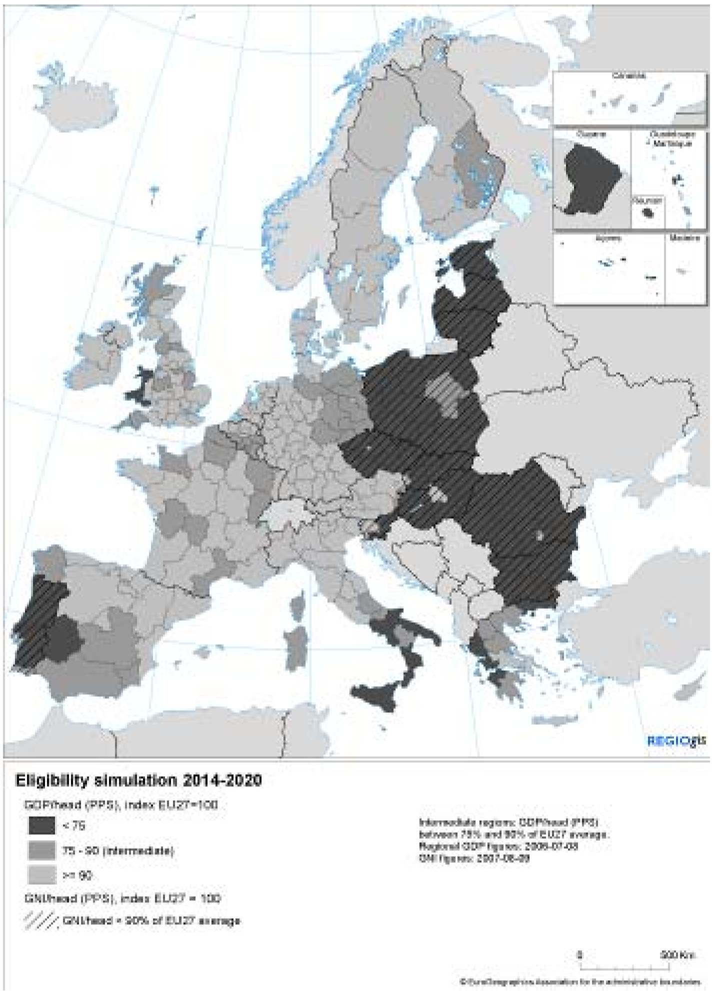


Table 1 - Difference in population covered between the two periods (million inh.) and number of regions (in parenthesis)

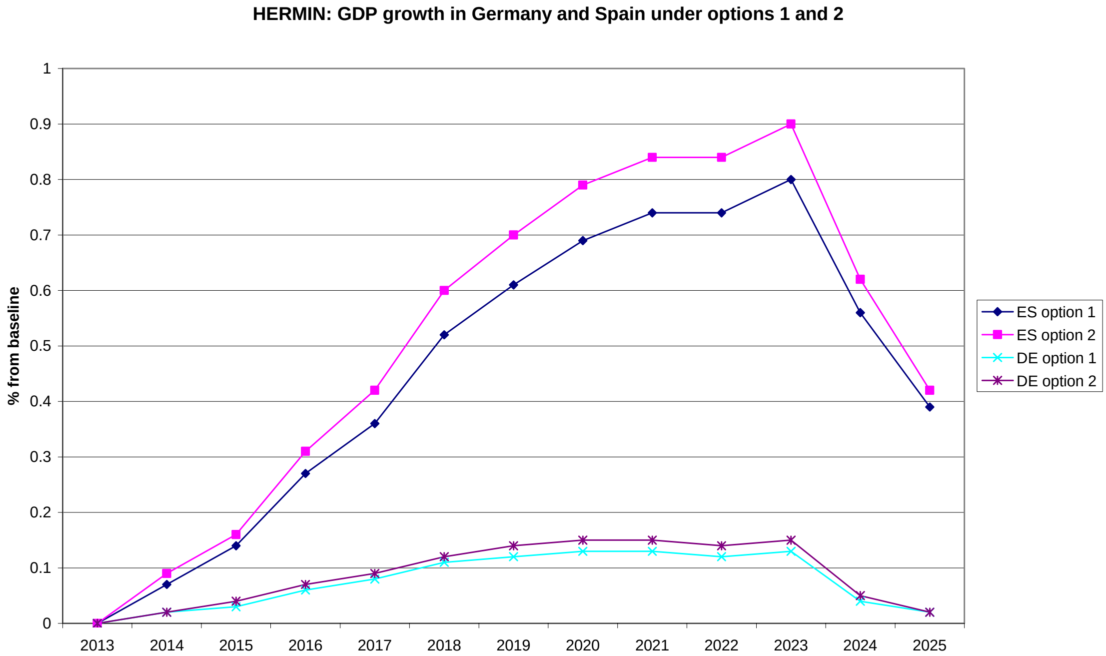
	2007-2013	2014-2020	
Convergence	154.8 (84)	119.2 (64)	less developed
Phasing in and out	36.7 (28)	72.4 (51)	intermediate
Competitiveness	307.3 (159)	307.1 (156)	more developed
Total	498.7 (271)		Total

Table 2 – Number of transition regions and population coverage by Member State under Option 2

Number of transition regions and population by Member State

AT	1	282
BE	4	3.092
DE	9	14.782
ES	4	14.275
FI	1	656
FR	10	16.701
GR	6	3.992
IT	4	3.909
MT	1	412
PL	1	5.195
PT	1	428
UK	9	8.673
Total	51	72.397

In terms of quantitative impacts, the QUEST as well as the HERMIN results for option 2 show very similar growth patterns as under option 1 because of the full geographical coverage under both options as well as because of a similar size of the assumed allocations as well as country coverage of the modelling analysis. Overall, there would be stronger growth than under scenarios with more limited geographical coverage, since cohesion policy investments generate growth in more developed regions, though much less so than in less developed regions. The higher aid intensity in transition regions also has a slight positive effect, though this varies substantially from Member State to Member State. HERMIN results demonstrate systematically higher growth than under option 1 in countries with transition regions. Employment also appears to be higher than under option 1.



The modelling results for the thematic concentration indicate that the full positive effects would materialise over the medium term. HERMIN identifies option 2 as generating higher levels of overall growth in the EU-27 over the longer run than under Option 1. QUEST on the other hand identifies this option as slightly less positive than option 1[80].

Under this option, **concentration on EU priorities** would be achieved through a menu of thematic objectives, which could contribute to creating critical mass and visible results[81]. Within the list of thematic objectives, Member States and regions would have scope to select priorities in line with their national/regional circumstances, which would ensure sufficient flexibility and promotes ownership.

The main advantage of this approach is that Member States could concentrate resources within thematic objectives on interventions that bring the greatest added value in relation to Europe 2020 objectives and headline targets. The expected impact of this option for more developed regions can be illustrated in spending terms, as shown by Table 3 and 4. Table 3 shows that the prefixed shares for the ESF within the structural funds support will represent an amount of €27.8 billion; which will contribute to Europe 2020 headline targets.

Table 3 – Expected impact of Option 2 for more developed regions[82]

Fund or thematic objective	**In billion euro**
European Social Fund (total)	€27.8

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[80] The reason for the different results lies in the treatment of investments in innovation, research and development as well as human capital, which in Quest only induce their positive contribution over the very long run, while in HERMIN, the positive effects can already be identified over the medium term.

[81] Barca, F (2009) An Agenda for a Reformed Cohesion Policy. A Place-Based Approach to Meeting European Union Challenges and Expectations.

[82] The simulations are based on current allocations and cannot prejudge the outcome of negotiations with Member States.

European Regional Development Fund (total)	€25.68
of which	
Support for Europe 2020 climate change headline targets	€5.14
Other expenditure (from the ERDF)	€20

Table 4: Simulation of expenditure in more developed regions in 2007-2013 and 2014-2020[83]

ERDF	allocations 2007-2013		allocations 2014-2020	
	€ bill.	share in ERDF allocations %	€ bill	share ERDF allocations %
Strengthening innovation, technological development and research (IG4)	9.64	31%	7.70	30%
Enhancing accessibility to and use and quality of information and communication technologies (IG4)	1.67	5%	0.98	4%
Enhancing competitiveness of small and medium sized enterprises	2.66	9%	7.70	30%
Supporting the shift towards a low-carbon economy in all sectors	2.66	9%	5.13	20%
Promoting climate change adaptation and risk prevention	0.59	2%	0.35	1%
Protecting the environment and promoting sustainable use of resources	2.31	7%	1.35	5%
Promoting sustainable transport and removing bottlenecks in key network infrastructures	3.24	10%	0.00	0%

83 The table takes into account the following:
- The total amount for the 2014-202o period is based on the Multi-Annual Financial Framework proposals with the minimum funding allocations for the ESF;
- The minimum amounts for climate change related investments (20%) have ben applied
- For all other thematic objectives, a pro-rata allocation has been applied (based on the 2007-2013 percentage).

Promoting employment and labour mobility	0.04	0%	0.02	0%
Promoting social inclusion and combating poverty	2.44	8%	1.43	6%
Investments in skills, education and lifelong learning	0.82	3%	0.48	2%
Enhancing institutional capacity and ane efficient public administration	0.91	3%	0.53	2%
Other	4.26	14%	0.00	0%
Total ERDF	**31.25**	**100%**	**25.67**[84]	**100%**
Total ESF	**23.99**		**27.80**	
Total ERDF and ESF allocations	**55.25**		**53.48**	

Table 4 shows that in the case of more developed regions, there would be an almost 100 % increase in allocations to supporting the shift to the low carbon economy compared to the status quo. There will also be a significant increase in support for investments in research and innovation and SME competitiveness, representing an amount of €15 billion. The table demonstrates that the bulk of the spending in more developed regions will focus on delivering core EU objectives. The option will have a similar impact for transition regions. Although Convergence regions may concentrate funding on a broader range of thematic objectives, this option will also includes the requirement of concentrating funding on core EU objectives such as supporting the low carbon economy which will result in an overall allocation of €9.75 billion. ESF-related measures will be supported with €40.6 billion, which will largely contribute to addressing headline targets for education, employment and poverty reduction.

The main drawback of this option is the reduced flexibility for Member States to decide on the investment priorities for the funds, which might result in a situation that regional specificities can not be sufficiently addressed in more developed regions.

Table 5 - Under this option, ESF allocations would be:

Total proposed budget 2014-2020[85] All figures in constant 2011 prices Minimum ESF allocations	

[84] As mentioned before, the reduction of the overall amount for the ERDF in more developed regions is due to the increased percentage of the ESF allocation, in line with the proposals for the Multi-Annual Financial Framework (June 2011).

Convergence regions Transition regions Competitiveness regions	€40.6 bn €15.6 bn €27.8 bn
Total amount minimum ESF allocations	€84.0 bn

Under this option, the **ESF would have a minimum funding allocation** and, depending on the needs of Member States, could obtain to a higher share. Since the method used to set the global envelope would be similar to that used at the beginning of the 2007-2013 period, it would be familiar to Member States. The main drawback is that under this option Member States would have reduced flexibility to negotiate the balance between ESF and ERDF allocations. However, the flexibility within each fund allocation would be unaffected.

Thus, under this option the overall ESF allocation would increase from €76 billion in the 2007-2013 period to at least €84 billion in the 2014-2020 period. For less developed regions, the percentage of ESF allocation would go from 24.6%[86] to 25%, while for more developed regions, the percentage of ESF allocation would rise from 43.5%[87] to 52%. Thus, the impact of the increase in the ESF allocation would be felt most in the Competitiveness regions.

In terms of economic impacts, more generally, higher levels of funding for the ESF imply a greater shift from investments in infrastructure and business support to investments in human capital. The modelling results confirm that this shift could only create positive effects over the long run. In the short run, it would result in slightly less growth compared to the status quo. Although the results vary from one model to another[88], there seems to be similar patterns of growth as a result of greater thematic concentration. Nevertheless, one important factor to bear in mind, particularly for Convergence regions, is that a shift in thematic concentration from 30% to 50% (from infrastructure/business support to human capital/R&D/innovation) would result in absorption problems.

Although the modelling results did not explicitly examine the impact of greater investment in human capital with regards to minimum ESF allocations, recent OECD studies have found that an increase of 10% in the share of highly educated in the working-age population tends on average to raise growth of GDP per head by 0.6 percentage points a year. The studies suggest that getting the mix right is particularly important. Infrastructure is a necessary but not sufficient condition for growth and only relevant if human capital and innovation are

85 Communication "A Budget for Europe 2020" - Part II: Policy fiches, Brussels, 29.6.2011 COM(2011) 500 final, p. 27.

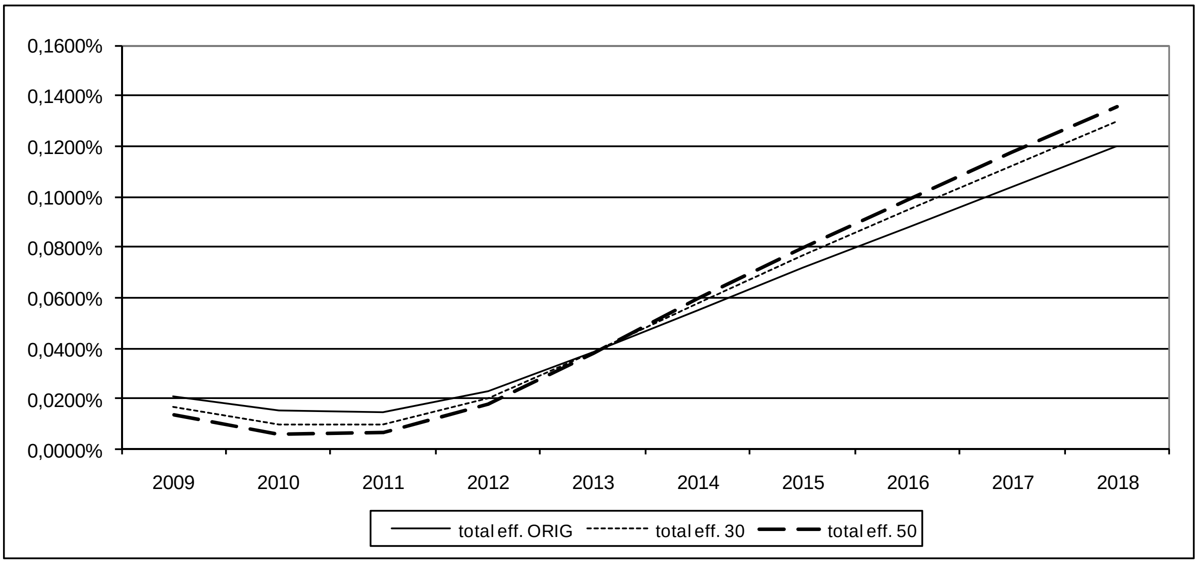
86 ESF as a percentage of the ERDF+ESF, excluding the Cohesion Fund.

87 ESF as a percentage of the ERDF+ESF, excluding the Cohesion Fund.

88 The results from HERMIN and GMR indicate slightly more positive results than those for QUEST.

present. On the other hand, over-emphasis on human capital investment may cause brain-drain[89].

Figure 5: Impacts of shifting from hard to soft investments (30% and 50% shift from hard to soft investments) GMR



In terms of **coordination with other EU policies and financial instruments**, this option foresees the adoption of a Common Strategic Framework, drawn up at EU level and which MS are obliged to use when drafting their investment strategies. At EU level, the Common Strategic Framework would on the one hand ensure greater coordination with other Funds such as the rural development and fisheries funds, while on the other hand, strengthening synergies with other Community policies and financing instruments. At Member State level, a Partnership Contract would be established on the basis of an agreement between the Commission and the Member State. The Partnership Contract would focus on results, core priorities and institutional pre-requisites, providing the Commission with a more strategic role, and it would shift the policy to a more performance-oriented approach.[90] It would ensure coordination with the National Reform Programmes and the Commission recommendations.

Coordination with other EU policies and financial instruments also needs to take into account the proposed Connecting Europe Facility for transport, energy and ICT[91]. The Impact Assessment for the ERDF, CF and European Territorial Cooperation Regulations will address these synergies in terms of scope in more detail, but with regard to the Common Provisions

89 OECD (2009), Investing for Growth: Building Innovative Regions, Background Report for the Meeting of the Territorial Development Policy Committee at Ministerial Level; OECD (2009) How Regions Grow: Trends and Analysis.

90 Barca, F (2009) An Agenda for a Reformed Cohesion Policy. A Place-Based Approach to Meeting European Union Challenges and Expectations. p. 163.

91 The Commission's proposals for the multi-annual framework include the establishment of the Connecting Europe Facility will have a single fund of €40 billion for the period 2014-2020. Inside this amount, specific funding would be allocated for the energy, transport and digital networks. The Facility will be centrally managed by the Commission with the support of an executive agency (such as the current TEN-T Executive agency) and financial intermediaries. The actual technical implementation of projects on the ground (e.g. procurement and tendering) will be done by the project promoters. The Facility will be complemented by an additional €10 billion ring fenced for related transport infrastructures investments inside the Cohesion Fund.

Regulation, this option would also need to include mechanisms for coordination between the two instruments. A clear majority of stakeholders clearly support the approach towards identifying infrastructural needs (removal of bottlenecks and missing links, efficient infrastructure management) from a genuinely European perspective. In addition, the majority of stakeholders, especially at Member State and regional level, also support better coordination between different financial instruments that fund TEN-T at Community level, namely Cohesion and Structural Funds (CSF), research funding, the TEN-T programme and the EIB's interventions[92].

The main drawbacks of this option are the complexities of ensuring a coherent investment framework at EU level which aligns five shared management funds (ERDF, CF, ESF, EAFRD and EFF) with the Europe 2020 Strategy. With different stakeholders and beneficiaries, the proposed framework could risk a lowest-common-denominator approach towards alignment if the negotiation mandate of the Commission is weak. Moreover, under the current system, there are separate strategies under each policy. There is a risk that including different policy areas in the Common Strategic Framework would lead to an extensive catalogue of interventions under different headings with no prioritisation.

At Member State level, the main risk of the Partnership Contract is that despite its binding nature, as an agreement between the Commission and the Member State, it might still not be sufficient to ensure alignment of Europe 2020 or enough focus on a limited number of priorities, if underlying policies such as those for Trans-European Networks remain generally non-binding. Partnership Contracts may prove more difficult and lengthy to agree on than the NSRF under the current programming period because of their binging nature and the need to take into account the regional dimension of many of the cohesion policy interventions. Moreover, the obligation to produce multiple strategic documents at EU level and at MS level poses an issue of administrative burden.

Stakeholder views of this option

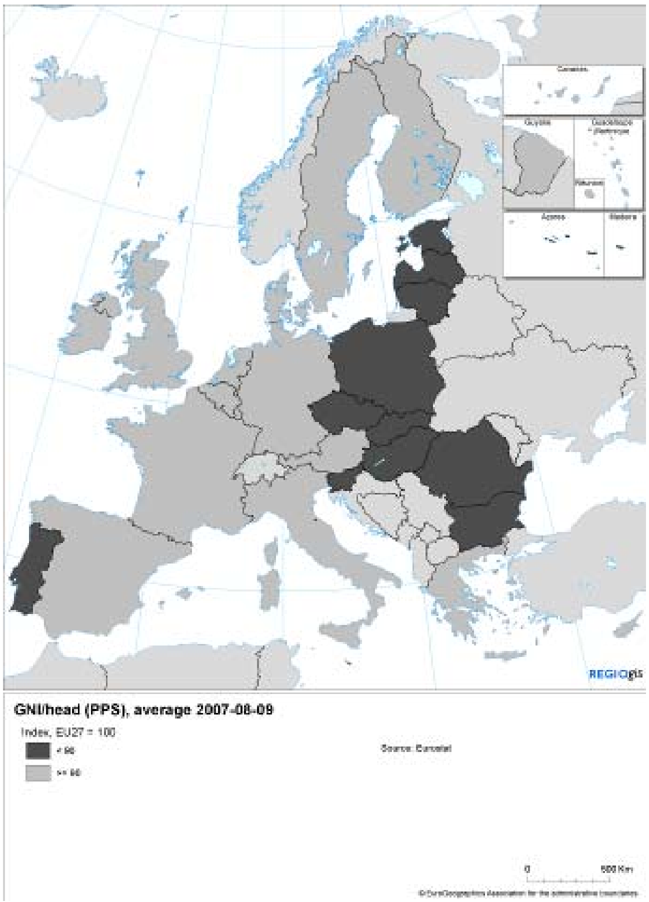
As with Option 1, stakeholders are largely supportive of continuing full coverage but stress the need for a simpler, more streamlined policy. There is general support for better coordination and synergies with other EU financial instruments and policies, in particular transport policy, but the earmarking provisions to ensure thematic concentration have not yet been sufficiently examined by stakeholders for any significant views to have been formed at this point. There is broad support for a Common Strategic Framework which includes other shared management funds, but no clear position among stakeholders on the proposed Partnership Contracts. Respondents were generally in favour of keeping the same budget heading for the ESF and ERDF, with financial allocations being negotiated between the European Commission and Member States (as is currently the case).

92 The results of the second round of consultation are summarised in the Commission Staff Working Document on "The New Trans-European Transport Network Policy. Planning and implementation issues" adopted in January 2011[92].

5.1.3. Option 3 – Convergence policy for lagging Member States

Under this option, **geographical coverage** would be limited to the least developed Member States. The main advantage of this option would be concentrating support on a small number of Member States, enabling for major savings to the EU budget, since it would be the least costly of the three options. The main drawback would be that only 22% of the EU's population would be covered. Cohesion policy would be a merely redistributive policy and could lose its allocative function[93]. In its allocative function, cohesion policy supports less developed Member States and regions to maintain high levels of investment in physical and human capital to improve competitiveness and growth potential and to promote sustainable development. The underlying rationale for the policy in more developed regions is more contentious, but essentially it acts as a funding source to stimulate new actions to promote growth, jobs and sustainable development[94]. Without full geographical coverage, there would be little incentive to foster cross-border spill-over effects, establish linkages between lagging and leading regions or even urban and rural, linkages which contribute substantially to positive development and reduction of disparities. Finally, without full coverage, there would be few EU incentives that could contribute to EU priorities available across the Union's-entire-territory.

Map 3: Geographical coverage of Option 3



93 DG REGIO Working Paper n° 03/2009 : The Future of Cohesion Policy in Richer Regions, http://ec.europa.eu/regional_policy/sources/docgener/work/2009_03_richer.pdf

94 The Lisbon and Gothenburg Objectives. The 2007-2013 programmes were designed to support the delivery of these objectives in all regions of the EU, supported by a process of setting targets for the share of resources to be "earmarked" for Lisbon and Gothenburg priorities.

Option 3 generates the least growth and employment across the entire EU-27 because support is concentrated on a limited number of Member States, because it has the lowest allocations of all options. The impacts of freeing up of resources for other uses possibly through the EU budget or through national budgets have not been assessed. Under this option, cohesion policy would not be available for the majority of Member States and would not provide a long term budgetary framework in order to address Europe 2020 objectives and targets.[95] Thus, the main drawback would be population coverage, as this option would be limited. Clearly, this is not an economic argument, but certainly an argument which finds a great deal of opposition amongst stakeholders given that for many of them, cohesion policy offers a long-term stable investment framework.

Figure 3: GDP growth in the EU-27 in the four options by Quest (% change from baseline)

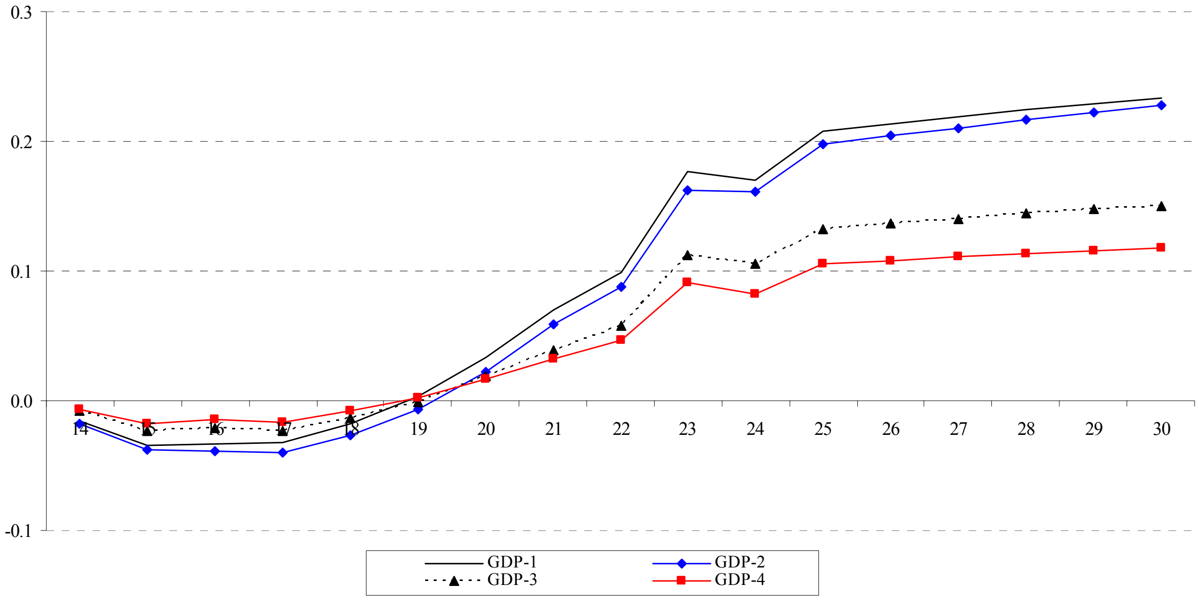
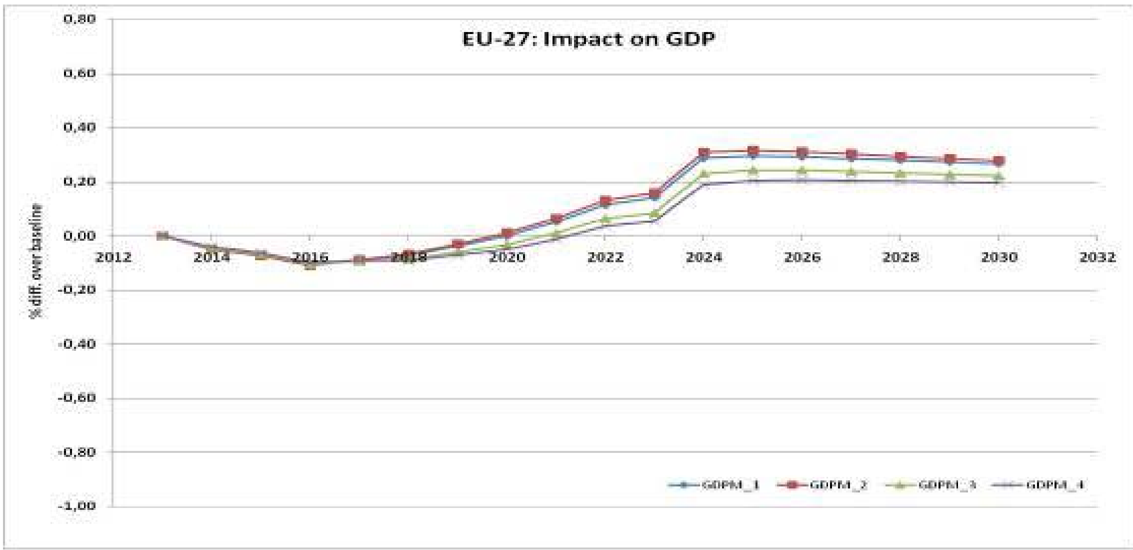
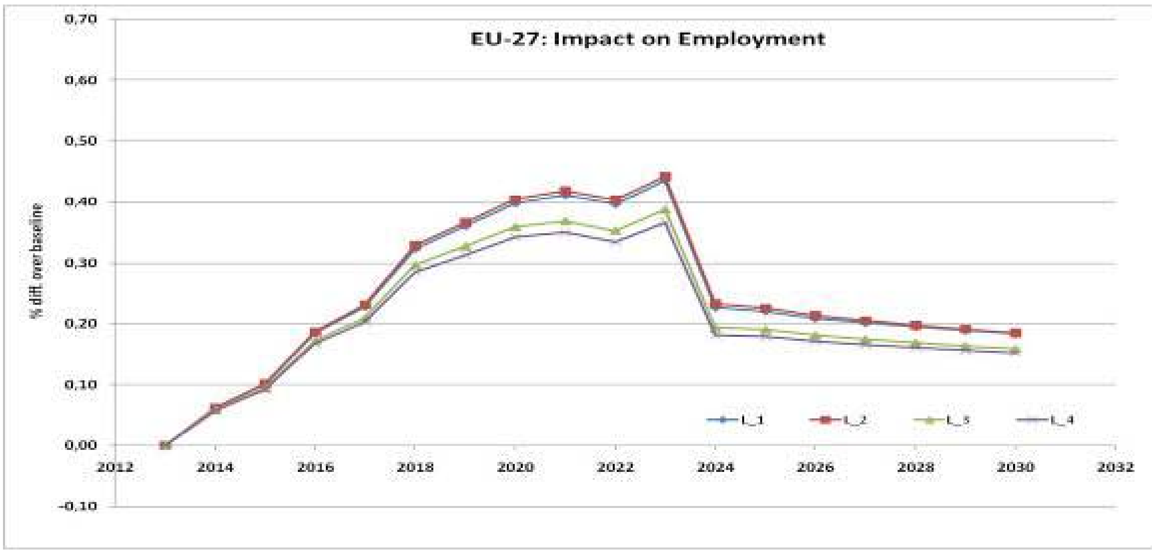


Figure 4: GDP growth in the EU-27 in the four options by HERMIN (% change from baseline)

[95] For a detailed discussion see Fabricio Barca (2009), An agenda for a reformed Cohesion Report. A place based approach to meeting European Union challenges and expectations, p. 56 ff.





Under this option, the **ESF would have the most predictable funding volume** as the ESF allocation is determined by a specific calculation method that takes into account how far each region and Member State is from Europe 2020 headline targets on employment, education and social inclusion. The main drawback would be no flexibility for Member States in negotiating their ERDF and ESF allocations. Moreover, developing a politically acceptable common calculation method could be very challenging.

Figure 1: GDP growth in the new Member States in the four options by HERMIN (% change from baseline)

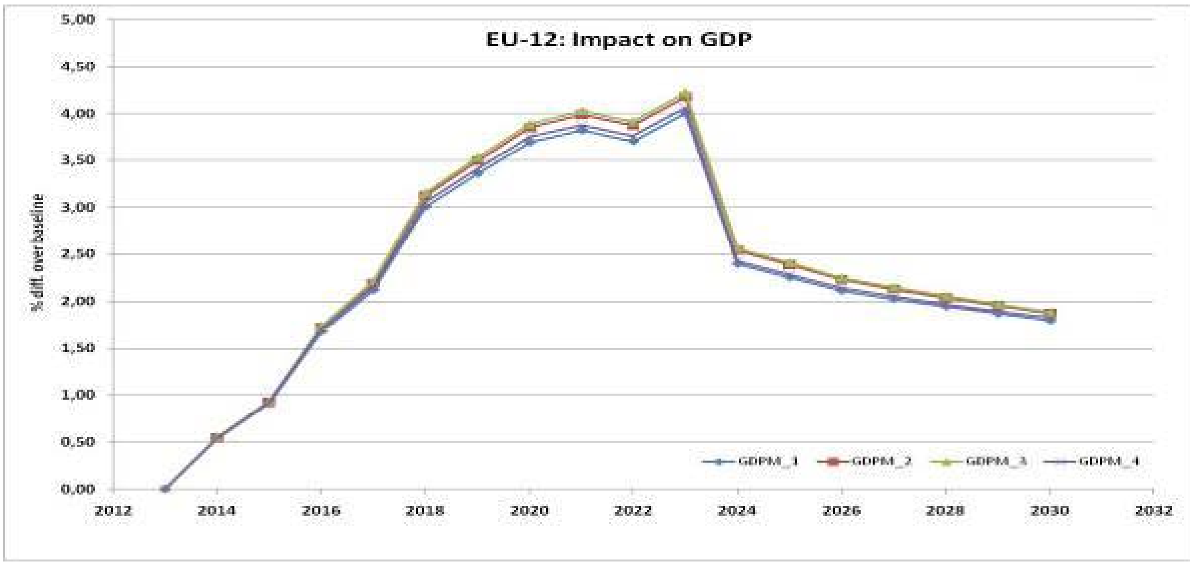
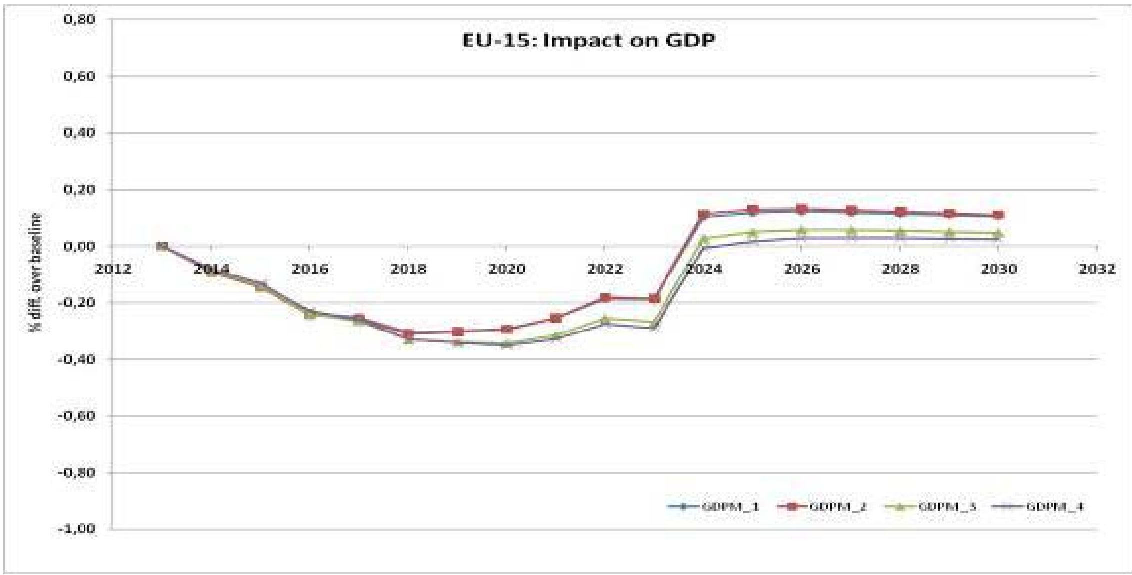


Figure 2: GDP growth in the old Member States in the four options by HERMIN (% change from baseline)



There would be little or no concentration on EU priorities and coordination with other EU policy instruments and policies with this option which could arguably be considered a budgetary support measure.

Stakeholder views of this option

Very few stakeholders have supported this option, since cohesion policy is not only seen as an expression of EU solidarity but also as a way of both financing growth-enhancing investments from a truly European perspective and delivering EU priorities on the ground. This option has found support in the academic literature and also among some international public policy organisations.

5.2. Addressing the necessary conditions for effective investment

The use of conditionalities to increase effectiveness of interventions is used by international financial institutions as a way of ensuring that preconditions deemed critical for achieving intended outcomes are included in the lending agreement as a condition for disbursement. Conditions generally used would include preparations of action plans and other background documents, enactment and implementation of legislation and government programmes, institutional performance and macroeconomic conditions.[96] In addition to safeguarding resources of international financial institutions, conditionality is seen as a means of helping countries solve macroeconomic imbalance issues using financial leverage without allowing macroeconomic imbalances to negatively impact economic performance.[97] Thus, "*conditionality can be seen as a type of contractual arrangement whereby a government takes, or promises to take, certain policy or institutional actions, in support of which a higher-level government authority or an international institution will provide specified amounts of financial and/or technical assistance. While it is often implied that the recipient would not take these steps otherwise or that the donor could not trust the recipient to do so, this need not be the case. The commitment to act may simply be a necessary condition for co-operation with the donor and it need not imply mistrust. Although the term often generates strong political reactions, owing to its association with the use of financial pressure to impose policy change from without, many forms of conditionality are less coercive than co-operative*"[98].

Following a review of its use of conditionality in 2005, the World Bank adopted principles for good practice[99], some of which have implications for conditionality applied in the context of cohesion policy.

Principles of "best practice" in international conditionality

• **Ownership**. Actively reinforce country ownership by relying on clear evidence of ownership informed by analytic work.

• **Harmonisation**. Agree up-front with the government and other financial partners on a co-ordinated accountability framework which includes both policy actions and outcome indicators.

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96 See e.g. World Bank Review of Conditionality: Modalities of Conditionality (SecM 2005-390/1), July 2005.

97 See e.g. IMF Guidelines on Conditionality September 25, 2002 (https://www.imf.org/External/np/pdr/cond/2002/eng/guid/092302.pdf)

98 "Policy Conditionality, Governance and Investment Outcomes", OECD Inception Report, June 2011 (final report expected December 2011), p. 2.

99 World Bank (2005), Review of World Bank Conditionality, Operations Policy and Country Services, The World Bank, Washington, DC, September.

• **Customisation**. Customise the accountability framework used to evaluate country performance under the programme and modalities of support to country circumstances. Do not use the framework to leverage additional reforms outside the government's agenda.

• "**Criticality**". Choose only actions critical for achieving results as conditions for disbursement.

• **Transparency and predictability**. Conduct transparent progress reviews conducive to predictable and performance-based financial support.

Source: World Bank (2005)

The analysis of the options is based on two dimensions: a) World Bank principles, in particular ownership, customization, transparency and predictability, and b) the ability of the options to address the problems identified in section 2.2. in relation to the performance of the policy.

5.2.1. Option 1 – No policy change

This option would leave the current system unchanged in terms of "institutional requisites which must be satisfied in each sector where the interventions take place in order to spend resources effectively – the institutional focus is limited to the requisite for financial implementation and administrative efficiency by the authorities managing the funds."[100] A limited number of conditionalities would continue to exist, e.g. compliance with Stability and Growth Pact rules under the Cohesion Fund, the automatic decommitment rules (N+2/N+3) to ensure sufficient levels of spending, and compliance with EU legislation (state aid, public procurement).

The main advantage of this option is the continuity it offers for managing authorities. Member States would continue to be required to evaluate their programmes but would be free to establish their own targets and objectives. The option would not result in additional administrative burden.

The main drawback is that the problems identified in section 2.2. such as inefficiencies linked to performance due 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 and would come potentially late in the EDP procedure. The lack of a system of rewarding and incentivising performance limits the potential for improving the effectiveness and efficiency of the policy. Without any change to the policy, the effectiveness of cohesion policy investments is not as high as it could be. This option would not establish a structured link between cohesion policy objectives and their contribution to the achievement of Europe 2020. Lack of concentration leads to a proliferation of indicators which are often not followed up. he lack of a system of rewarding and incentivising performance, with a nationally based optional performance reserve, limits the impact on the effectiveness and efficiency of the policy.

100 Barca, F (2009) An Agenda for a Reformed Cohesion Policy. A Place-Based Approach to Meeting European Union Challenges and Expectations. p. 69.

5.2.2. *Option 2 – Ex-ante conditionality*

The main advantage of this option is that it would address one of the key problems identified in section 2.2. in relation to the performance of cohesion policy, namely poor strategic, regulatory and institutional conditions which in some contexts hinder the effective use of funds. This approach entails a shift in focus from ex-post remedial action to ex-ante preventive action. It would increase the effectiveness and efficiency of cohesion policy by ensuring that the preconditions necessary for investments to flourish are in place (see example). Cohesion policy would induce necessary regulatory and institutional changes and ensure that investments are embedded in strategic frameworks. Table 1 shows how the existence of a water pricing policy in the water sector could lead to viability of investments through mechanisms that ensure adequate returns and appropriate prices for users.

This option would also ensure ownership since Member States would assess the fulfilment of the ex-ante conditionalities, and if needed implement actions, in the context of their specific circumstances. Harmonisation, transparency and predictability would be ensured by defining the list of ex-ante conditionalities and the criteria for fulfilment in the Regulation.

Example: Water sector

EU funds contribute to compliance with the environmental acquis in the water sector. The key legal instrument for water is the Water Framework Directive, which aims to ensure the protection of water and its sustainable use. Considerable investment is needed to reach full compliance, in particular in Member States which joined in 2004 and 2007 following the expiration of transitional period in the Accession Treaties[101]. Moreover, a recent report from the European Court of Auditors assessing the effectiveness of EU funds in the water sector suggested that better results could have been achieved at a lower cost[102]. One of the issues highlighted was that the process for setting grant rates showed significant weaknesses, and that the ability of projects to generate revenue had not sufficiently been taken into account. The lack of sustainable use of resources has been identified as an issue by the report 'Cohesion Policy and Sustainable Development' which found in two separate case studies in Portugal and Greece that lack of adequate water pricing poses a risk to the sustainable use of water resources.[103]

More generally, framework conditions related to cohesion policy spending on the environment are often lacking. Ex-post evaluations have shown that weak institutional capacities, unclear legal frameworks and delays in complying with EU directives, as well as variable and sometimes low quality of sectoral planning accompanied by vague strategies are key factors in hindering effective investment.[104] There is therefore potential to improve the effectiveness of spending with ex-ante conditionalities linked to the existence of e.g. appropriate institutional and legislative frameworks.

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[101] The total investment needs of compliance throughout the EU with the Urban Waste Water Treatment Directive, not including reinvestment needs, is estimated at EUR 45 billion from 2005/2006 until the compliance date. (COWI (2010) Compliance Costs of the Urban Wastewater Treatment Directive. Final report. September 2010.)

[102] European Court of Auditors (2010). 'Is EU structural measures spending on the supply of water for domestic consumption used to best effect?'

[103] IEEP (2011) Cohesion Policy and Sustainable Development. Draft final report.

[104] ADE (2009) Ex-pose evaluation of the ERDF 2000-2006 Work package 5.b Environment and climate change. Final report. Pages 18, 48 and 74.

Table 1 – Example: expected impact of introduction of ex-ante conditionality

Thematic objective	Ex-ante conditionality	Criteria for respect	Expected impact
Protecting the environment and promoting the sustainable use of natural resources	Water sector: Water pricing policy which ensures an adequate contribution of the different water uses to the recovery of the costs of water services, in line with Article 9 of the Water Framework Directive (WFD).	– Demonstration that account has been taken of recovery of costs of water services, including environmental and resource cost in line with Article 9 of WFD – Economic analysis in accordance with Annex III of the WFD regarding volume, price and cost of water services, and estimates of relevant investments; – Contribution of different water users by sector in line with Article 9 of WFD	– Viability of investments through pricing mechanisms that ensure adequate returns and appropriate prices for users - Sustainable use of water resources
Promoting employment and mobility of workers **(Employment target)**	ALMPs are designed and delivered in accordance with the Employment Guidelines	Employment services have the capacity to and do deliver : – personalised services and active and preventive labour market measures at an early stage, which are open for all jobseekers and are not limited to unemployed – targeted ALMPs – transparent and systematic information on new job vacancies Employment services have set up networks with employers and education institutes	Better matching between jobseekers and available jobs, swifter transitions to a job due to tailored assistance taking into account labour market demands and thus contributing to achieving the employment rate[105].

105 Card, D., J. Kluve und A. Weber (2010), Active Labour Market Policy Evaluations: A Meta-analysis. Economic Journal 120 (548): 452-477; 'Active Labour market policies for the Europe 2020 Strategy: ways to move forward' publication by the Flemish Department of Work and Social Economy in cooperation with the Research Institute for Work and Society, the European Commission and the City of Antwerp (Presidency Conference of October 2010).

The main drawback of this option lies with the risk of delays in starting the programmes, increasing the administrative burden and the challenges of monitoring. Any delays in starting up programmes could lead to difficulties in adequately assessing the progress in meeting commitments. Adverse behaviour would also need to be minimized for instance, focusing EU funds on investments where ex-ante conditionality has been fully met while not investing in areas where significant adjustments are needed. Commitments would need to be enforceable. Monitoring methods would have to be carefully selected to limit interpretations in case of failure. Studies warn against applying complex conditionalities, which may divert attention from programme goals while adding an administrative burden.[106] Some of the risks could be minimised through putting in place the preconditions themselves. For example a favourable regulatory environment for businesses and institutional efficiency could reduce the administrative burden. Delays in adoption could be limited if Member States and/or regions make a clear commitment to fulfil the conditions by a certain date in the programming documents.

Stakeholder views of this option

There is general support, particularly among Member States, on incentives linked to setting effective preconditions directly linked to cohesion policy. There is a clear general consensus on the introduction of incentives linked to success in implementing cohesion policy. On introducing effective preconditions within cohesion policy, 14 contributions from Member States were supportive and only two rejected it outright.

In the context of a specific Task Force on Conditionality[107] Member States and EU institutions expressed broad support for applying ex-ante conditionality which respect the following principles:

– directly linked to cohesion policy
– limited in number applicable to a programme
– based on strong ownership, tailored to specific contexts and reflecting constitutional arrangements and distribution of competences between national and regional levels
– based on objective criteria for assessment
– based on joint agreement between the Commission and the Member State
– proportional application, not leading to increase in administrative burden.

5.2.3. Option 3 Performance framework and performance reserve

The main advantage of this option is the introduction of a performance framework which would set milestones in terms of achieving objectives and targets which would be the basis for monitoring and reporting. For example, with respect to the climate change headline targets, the Partnership Contracts with Member States would be used to stimulate and monitor progress of investments contributing the 20/20/20 objectives[108]. It would give the Commission a strengthened role in assessing progress and taking corrective action when

[106] Kapur D and R. Webb (2000) Governance-related conditionalities of international financial institutions. G-24 Discussion papers. No. 6. August 2000, United Nations Conference on Trade and Development.

[107] The Conditionality Task Force was set up following the request at the informal meeting of ministers responsible for regional policy of 22-23 November Liège, which invited the Commission to examine the various aspects of conditionality relevant for cohesion policy in dialogue with Member States and other EU institutions.

[108] Communication "A Budget for Europe 2020", Part II, COM (500) 29.6.2011, p. 13

necessary during the performance review. Progress towards milestones would provide a clear indication of progress towards delivery of investment priorities linked to Europe 2020 and provide policymakers and programme managers with robust information on delivery. Monitoring of progress and reporting on the achievement of indicators have been one of the core elements cohesion policy for well over a decade, and do not in themselves represent a new requirement or bring about additional administrative costs. The concept of a mid-term review to assess the progress made and the needs for reprogramming is also not novel, as formal requirements for this were in place in 2000-2006. The option proposed would involve a more meticulous and standardised approach to performance review, and entail strong commitments to targets set, but would not involve substantial new information requirements. A decision not to allocate the performance reserve should not have adverse impact on implementation on operations on the ground. As Member States would not have certainty on the allocation of these funds prior to the performance review, decisions to commit these funds to operations in advance would require sound risk assessment by the Member States.

This option would also ensure ownership since it would be up to Member States to define initially targets and milestones for subsequent negotiations and agreement with the Commission. Transparency and predictability would be guaranteed through regulatory provisions stipulating the mechanism for reviewing progress towards the attainment of the milestones.

The main drawback of introducting a performance framework is the challenge of robust measurement techniques, in particular indicators, the weakness of which has often been highlighted in the ex-post evaluations. For example, results can be affected by factors unrelated to programme or performance management. Some results, particularly in sectors such as building TEN-T networks and R&D or innovation, may only be visible over the long term. Adverse behaviour, such as setting very low targets, would also need to be avoided. Suspension of payments in cases of underperformance could in some cases lead to implementation difficulties on the ground, therefore it should not be an automatic or a frequent procedure, but a measure of last resort to safeguard the interests of the Union, to be used when it is clear that interventions financed would lead to the attainment of agreed objectives.

5.2.4. Option 4. Strengthened macro-fiscal conditionality

The rationale for introducing better rules for macro-fiscal conditionality is (i) to reinforce the implementation of the stability and convergence programmes and strengthen incentives for SGP compliance and (ii) to ensure the effectiveness of growth-enhancing investments is not undermined by the pursuit of unsound fiscal policies. Some stakeholders have recently made strong claims to reinforce macro-fiscal conditionality within cohesion policy.[109]

The main advantage of this option is that it would provide full alignment between the provisions for macro-fiscal conditionality and the new rules of budgetary surveillance of the Stability and Growth Pact as proposed in the context of the Sixth Economic Governance package. This would ensure coherent use of all available policy tools under the new economic governance system and provide a credible procedure for applying macro-fiscal conditionality. The application of reverse majority voting in the Council could reduce the extent of discretionary and politically motivated decision-making. Political discretion could be limited

[109] Letter from Angela Merkel and Nicolas Sarkozy to Hermann Van Rompuy, 17 August 2011.

to exceptional economic circumstances. Ownership would be ensured since it would be up to Member States to propose measures to correct excessive deficit. Transparency and predictability would be guaranteed through designing objective rules for application. The suspension of a share of outstanding cohesion policy commitments depending on the severity of the breach of SGP rules, in line with the likely impact of policy misconduct on the effectiveness of EU cohesion support.

One of the drawbacks of this option is the potential disruption it could cause to cohesion policy programmes. For example, if spending on major infrastructure investments, which often take years to materialise, is suspended or if regional bodies were held responsible for decisions out of their competence. This was one of the reasons why some stakeholders have expressed doubts about strengthening macro-conditionality in the cohesion policy. The OECD has also warned against potential “disconnect of a policy instrument (cohesion funds) from its policy target (regional development)"[110].

In its proposal on the next multi-annual framework, the Commission envisaged a temporary increase in the co-financing rate by 5 to 10 percentage points when a Member State is receiving financial assistance in accordance with Article 136 or 143 of the TFEU, while keeping the same overall level of EU funding. Macroeconomic conditionality will therefore need to be designed in a way that does not jeopardise efforts required from national budgets at a time of fiscal consolidation. Equal and fair treatment of Member States would also need to be ensured when the magnitude of suspension is defined. Experience with the application of conditionality from the World Bank has also shown the importance of shifting from a focus on short-term macroeconomic adjustment to support for medium-term institutional change, such as improvements in public sector governance[111].

Stakeholder views of this option

Although a general consensus emerged from contributions on ensuring the effectiveness of cohesion policy action, views were very mixed on the options proposed in the conclusions of the fifth Cohesion Report in terms of conditions, incentives and use of a performance reserve. Contributors were generally not in favour of macro-fiscal conditions, this being the most frequent comment. On the other hand, some supported incentives and sanctions linked to setting effective preconditions directly linked to cohesion policy. There was general consensus on the introduction of incentives linked to success in implementation of cohesion policy. Use of a performance reserve to reward more effective programmes was widely debated, some favouring a performance reserve at national rather than EU level but others opposing any kind of reward.

The positions of Member States were mixed as far as conditionalities were concerned. Three contributions were clearly in favour of macro-fiscal conditionality, three would support it if it were not confined to cohesion policy expenditure, four said the issue was being addressed in other fora (the Van Rompuy Task Force and other Council formations), and three accepted the general idea subject to conditions. Four contributions were clearly opposed to macro-fiscal conditionality and seven were critical of vital elements of the proposal, with three of them saying conditionality should be linked to cohesion policy and not to other policy areas.

110 "Policy Conditionality, Governance and Investment Outcomes", OECD Inception Report, June 2011 (final report expected December 2011), p. 16.

111 Mold, A. (2009), Policy Ownership and Aid Conditionality in the Light of the Financial Crisis: A Critical Review, OECD, Paris

Two contributions made no specific reference to the issue. Only two Member States supported use of a performance reserve at EU level. Eight preferred one at national level. Eight contributions were either sceptical about it, or against the very idea.

Regional and local authorities as well as the economic and social partners were strongly opposed to the introduction of macro-conditionality in cohesion policy.

5.2.5. *Option 5 – Combined ex-ante and ex-post conditionality*

The main advantage of this option is that it would address all the problems identified in section 2.2. in relation to the performance of cohesion policy. It would ensure adequate strategic, regulatory and institutional conditions for the use of the funds and would provide incentives to attain predefined objectives and targets of the programmes through continuous monitoring of progress. It would reinforce the rules on macro-fiscal conditionality and align it with the new Stability and Growth Pact enforcement measures to be adopted as part of the Sixth Economic Governance Package. The main disadvantage of this option would be the increased administrative burden generated by the need to fulfil the necessary preconditions and put in place the performance framework.

5.3. Streamlining delivery and minimising the risk of error

Delivery systems need to ensure an appropriate balance between accountability for results, transparency with regard to expenditure incurred and the simplicity of day-to-day implementation on the ground. As noted in Section 4.3, streamlining delivery of cohesion policy involves two aspects. First, there is the need to balance the trade-off between minimising administrative costs and minimising the risk of error and/or risk to the EU budget. Second, there needs to be better coordination between the main cohesion policy instruments, primarily the ERDF and the ESF. The options below are assessed primarily in terms of their impact on administrative costs for beneficiaries, managing authorities and the Commission.

5.3.1. *Streamlining delivery – minimising administrative costs and risk of error/risk to EU budget*

5.3.1.1. Option 1 – No policy change

Under this option, **payments** based on real costs provide assurance that EU funds are used towards co-financed projects. However, under this option, managing a real cost system in "soft" projects in particular can lead to a higher error rate and disproportione management costs.

It is also one of the main reasons why implementation of cohesion policy is perceived by many beneficiaries to be overly complex. During the 2007-2013 period, first steps were taken to introduce simplified reimbursement options – flat rate for indirect costs, standard scales of unit costs and lump sums. The initial reaction from Member States has been positive with great interest for the uptake of some of these solutions for the ESF in particular[112].

[112] DG EMPL approved 32 methodologies for the use of simplified costs (as of January 2011) and proposals were submitted for 23 Member States. For the ERDF regions from 13 Member States have submitted methodologies for the use of simplified reimbursement options to DG REGIO for review (for ERDF, as of December 2010). However the Commission review is not mandatory therefore the actual take up could be higher.

Nevertheless, reimbursement based on real costs has remained the main basis for financial management, even if in some ESF operational programmes, simplified cost options are now implemented by default[113]. The development of initial methodologies for setting a flat rate or standard scale system has proved to be more time-consuming and resource-intensive than Member States expected.

In the area of **e-governance**, there would be no substantial guidance or obligations on e-governance at EU level for cohesion policy implementation. The main advantage of this option is that it offers continuity. Many Member States have already developed IT management systems that are gradually offering more advanced functionalities. Results from the study on administrative costs in implementating e-governance solutions show that some managing authorities see the application of more rigid guidance or of compulsory e-solutions as imposing an unnecessarily administrative burden. However, the mapping of information systems in place has indicated that Member States have thus far focused on intergovernmental operability rather than on reducing the burden for beneficiaries[114]. The main drawback of this option is the risk that in many Member States and regions, beneficiaries would not have the option of using e-solutions to reduce their administrative burden.

In the area of **assurance**, the 2009 Annual Report of the European Court of Auditors highlighted that "in the Cohesion area, a significant reduction in the error rate has been noted compared to previous years. The frequency of errors has also decreased in the last three years."[115] The reduction in the error rate indicates that compliance assessment of national management and control systems - a new arrangement set up for the period 2007-2013, - and the new set-up of systems and reporting, have contributed to reinforced assurance. The role of the Commission in this process has been substantial – for example, only 121 compliance assessments (out of 314) were approved by DG Regional Policy following their initial submissions. Thus, while a compliance assessment with a 100% review by the Commission does not ensure solid management and control systems in all cases, it appears to have contributed significantly to improve the level of assurance. In addition, through its 2008 Action plan, the Commission applied a strict policy of interrupting and suspending interim payments where serious system deficiencies or irregularities are detected.

The main drawback of this option is that despite the progress made in comparison with 2000-2006, cohesion policy remains the policy group most affected by error,[116] indicating further need for improvement. Furthermore, the current option with its blanket review arrangements can lead to inefficient use of resources, as they are not adjusted proportionately to the levels of risks involved. Commission resources in particular may be used in a suboptimal fashion, as equal resources are deployed in the compliance assessment of both very large and very small programmes.

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113 Examples of operational programmes which have taken up this reimbursement method include the ESF OP in Flanders and the OP in England.

114 "Measuring the impact of changing regulatory requirements to administrative cost and administrative burden of managing ERDF and CF" (study commissioned by DG Regional Policy, draft final report, June 2011, expected completion September 2011).

115 European Court of Auditors Annual Report 2009, p. 21.

116 European Court of Auditors Annual Report 2009.

5.3.1.2. Option 2 – Flexible approach

Under this option, managing authorities and beneficiaries can choose whether they opt for **payments** based on real costs or payments by deliverables. The main advantage is greater flexibility as it offers a choice, based on the type of project. The main drawback is that this would add to the complexity and increase the administrative burden for managing authorities who would have to ensure systems were in place to accommodate different payment options for potentially hundreds of support schemes. The extensive preparation work could lead to delays in implementation and could induce significant additional complexity. It could also create risk of managing authorities 'goldplating' requirements for beneficiaries in order to minimise the risk of error.

In terms of **e-governance**, the Commission would provide extensive guidance at EU level and ensure the exchange of good practice. The main advantage of this option is that would offer continuity, based on the IT systems developed by managing authorities in the current period. It could lead to the proliferation of efficient e-solutions across the EU as a result of soft guidance and the spread of good practice, but it would not ensure it. The main drawback of this option, as with Option 1, is that it would not necessarily address the problems that beneficiaries face in all Member States.

In the area of **assurance**, responsibility for the ex-ante assessment of management and control systems would be placed clearly on the Member State. The possibility of future financial corrections would ensure that Member States have incentives to put in place solid management and control systems. The main advantage is that a system of purely national accreditation would reduce administrative costs for the Commission and to an extent also for national authorities (as the process would be shorter with lower costs of communication with the Commission), particularly in the initial stages. However, the absence of the Commission in this process would also mean the loss of a preventive element in the control system, along with some legal certainty as a sense of shared responsibility. This approach could lead to more frequent errors later on, translating into higher administrative costs – more frequent controls, reporting, interruptions and suspensions of payments and even financial corrections.

The main drawback of this option is that assurance at EU level would rely heavily on systems put in place by Member States. If Member States were to fail to put in place sufficiently robust systems, expenditure could be reimbursed from the EU budget before the detection of weaknesses by subsequent ongoing controls.

5.3.1.3. Option 3 – Prescriptive approach

Under this option, **payments** to projects based on deliverables increase the focus on results and render the system more accountable in terms of the results achieved. The detailed expenditure would no longer be checked, allowing for substantial simplification in management and reductions in administrative burden. The main difficulty with this option is avoiding "creaming" effects, e.g. selecting projects where achieving results is simple, rather than projects which are more necessary. Furthermore, under this option, the transparency of financial transactions would be lower, since underlying costs would not be checked.

In terms of **e-governance**, this option involves mandatory use of standard IT systems developed at EU level for both national authorities and beneficiaries. The main advantage is that a standardised system could also lead to improved monitoring and evaluation as well as an overview of financial management across the entire range of programmes. The main drawback is the difficulty of finding an IT system to reflect all the specificities of different cohesion policy programmes, as well as accommodating all national requirements and procedures. Even if a technical solution were to be found, developing such an application at EU level would take many years before it could be fully operational. There would be a number of challenges with establishing links to national business registers, tax data bases and other information systems that would yield simplification for beneficiaries. It is likely that legal issues would arise, due to differences in national requirements on identification, document management, retention etc. In addition, Member States have already invested heavily, both in terms of resources and time, in their information systems, to ensure financial management and collection of monitoring data. A new EU-level solution would mean that much of the investments made so far would be rendered useless. In terms of **assurance**, this option would involve an independent Commission review of national management and control systems prior to the start of implementation without the involvement of national audit bodies. The main advantage is that this would ensure a truly independent review of management and control systems, providing maximum assurance for the Commission on their compliance. The main disadvantage is that it would cause severe delays to the start of implementation, as the Commission has limited resources for such a review.

5.3.1.4. Option 4 – Proportional approach

Under this option, it would be easier for national/regional authorities to use the simplified **payment options**, providing alternatives to a system based on real costs which can often lead to unnecessary complexity and a disproportionate administrative burden. The main advantage of this option is that it would ease the transition to a range of simplified cost options for certain types of projects, parts of programmes or programmes while still allowing for reimbursement based on real costs for all other projects. This ensures that administrative costs are proportional and that the administrative burden to beneficiaries is reduced[117], as the underlying detailed expenditure would no longer be verified and audited. Furthermore, the use of standard scales of unit costs and lump sums has the potential to make outputs and results the focus of delivery. While there is no guarantee that this approach would diminish the error rate, it has the potential to reduce the complexity of management, thereby making technical or compliance errors less likely.

In the area of **e-governance**, this option would involve provisions in the regulations that would oblige managing authorities to develop e-governance applications. The main advantage would be that compulsory use of e-governance would simplify the workload for beneficiaries and improve monitoring and evaluation. It would also involve an electronic (easily traceable) audit trail and secure document retention, potentially leading to fewer errors due to lost audit trails. In addition, managing authorities would have the flexibility to develop their own IT solutions, based on their experience in the 2007-2013 period and in line with the specificities of their programmes. This would enable the linking of systems to local business registers, tax data bases and other systems, reducing the need for beneficiaries to submit generic

[117] "Measuring the impact of changing regulatory requirements to administrative cost and administrative burden of managing ERDF and CF" (study commissioned by DG Regional Policy, draft final report, June 2011, expected completion September 2011).

information already possessed by the public authorities. The main drawback of this option is the potential resistance of some Member States, since developing additional e-services for beneficiaries can require significant initial investment both in terms of resources and time at national or regional level. However some Member States have already developed advanced functionalities for beneficiaries, demonstrating that there is a will to move in this direction. Since the initial assessment[118] shows that such advanced functionalities could lead to significant reductions in the burden for beneficiaries (of up to 11% for ERDF and the Cohesion Fund) and potential savings for the national and regional administration, benefits of such arrangements are expected to outweigh initial investment costs.

In the area of **assurance**, a differentiated risk-based assurance system can be more effective and efficient as resources would be focused on high-risk areas, where the value added of controls is likely to be greatest. Risk assessment can be based on a number of different elements, such as field of intervention, past audit history, etc[119]. This leads to better overall efficiency and potentially higher levels of assurance. In terms of administrative costs to administrations, estimates suggest a reduction of approximately 4.3% of total workload, i.e. 7,000 person-years spread over all ERDF programmes[120]. In relative terms, Competitiveness programmes could yield a somewhat higher reduction than other programmes.

The main drawback of this option is that since the European Court of Auditors still considers annual error rates to be significant, there might be a need to direct more resources to high risk areas at EU level. Furthermore, this option could result in a two tiered approach with more stringent requirements for some Member States and regions, leading to potentially controversial statements on the quality of governance in different MS.[121]

Stakeholder views on streamlining delivery

Stakeholders have underlined the importance of the proportionality principle which should be used to simplify procedures and reduce controls when necessary. There is a general plea to focus more on the outputs and results of projects to lighten current burdens in the management and control systems. Furthermore, many stakeholders support the introduction of contracts of confidence to reduce the number of audits and controls, while others generally called for greater coordination at EU level. Other suggestions included acceleration of reimbursements, minimisation of the administrative burden for small-scale projects and application of standard costs.

118 Initial assessment, Measuring the impact of changing regulatory requirements to administrative costs and administrative burden of managing EU structural funds: ERDF and Cohesion Fund, to be finalised in autumn 2011.

119 Some studies for instance associate risks with the types of activities financed, indicating for example that with the increasing orientation towards innovation related actions, risks related to financial control are bound to rise. See EPRC (2010) p. 19.

120 "Measuring the impact of changing regulatory requirements to administrative cost and administrative burden of managing ERDF and CF" (study commissioned by DG Regional Policy, draft final report, June 2011, expected completion September 2011).

121 Bachtler, J., Mendez, C.: The Reform of Cohesion Policy After 2013: More Concentration, Greater Performance and Better Governance? p. 36.

5.3.2. *Coordination of cohesion policy instruments*

5.3.2.1. Option 1 – no policy change

Under this option, the distinction between the ESF and ERDF would continue to be unclear. Beyond 'cross-financing', many interventions in areas such as entrepreneurship, R&D, innovation, and education can be financed under both funds. This is partly because the scopes of the different funds are defined in very different manners.

In the current period, cross-financing was introduced to compensate for the suppression of multi-fund programmes, allowing for a single fund approach at project level. In practice, it facilitates the implementation of projects for beneficiaries. Given the strict conditions for implementation, it limits potential abuses in terms of support to an investment by a Fund whose scope is not appropriate. The main advantage of continuing with Option 1 is that managing authorities are familiar with these provisions.

The main drawback of this option is that cross-financing places an additional administrative burden on managing authorities and beneficiaries, as managing authorities need to keep track of the percentage of support provided to projects eligible under "the other" fund. Furthermore, the 10% flexibility clause is insufficient for certain areas of investment. For example, infrastructure investments are by nature more costly than 'soft' activities (e.g. training). This makes it proportionally more difficult for the ESF to undertake infrastructure investment, and thus does not facilitate "mono fund" actions in the field of education and social inclusion. Given the low ESF amounts, ESF authorities prefer to concentrate on core activities and do not use flexibility, except to a limited extent to fund equipment.

5.3.2.2. Option 2 – Facilitating integrated programming

Under option 2, the main advantage is that for thematic multi fund programmes, and where appropriate for geographic multi-fund programmes, the "lead fund's" interventions would be systematically complemented through specific priority axes by interventions from the other fund. For instance, training/skills provision would be complemented by ERDF investments in buildings and infrastructure. This approach would minimise the need to use cross-financing, while keeping it as an option offering flexibility for individual projects.

Option 2 would apply the integrated approach to programming in line with the goals and objectives of Europe 2020. Multi-fund programmes would also encourage common processes for preparation, negotiation, management and implementation (including a common managing authority and a common monitoring committee), thereby improving coordination. Simplified eligibility rules would also reduce the administrative burden substantially, as confirmed by a number of studies on administrative costs in cohesion policy[122].

Under this option, national, regional or local authorities responsible for programme delivery would be able to establish integrated strategies addressing for instance, business support or social and employment services mobilising different funds in a integrated way. This approach

[122] "Measuring the Impact of Changing Regulatory Requirements to Administrative Cost and Administrative Burden of Managing EU Structural Funds (ERDF and Cohesion Fund), Study commissioned by DG REGIO, draft final report (2011).

would minimise the need to use cross-financing, while keeping it as an option providing flexibility for individual projects.

The main drawback of this option is that, on its own, it would not fully address the issue of coordination, nor would it correct overlaps between ERDF and ESF or with other funds. Moreover, designing and implementing integrated strategies is not only a matter of the EU regulatory framework. It is also linked to administrative and institutional capacity. In the 2000-2006 period, there were multi-fund Operational Programmes, created with a view to promoting integrated strategies. However, in the 2007-13 period, multi-fund Operational Programmes were replaced with mono-fund programmes to simplify programme management. Furthermore, the application of the flexibility rule would still need to be monitored, thus the administrative burden on Managing authorities would remain. In addition, the different monitoring systems involved for different funds might be less effective if they were joined up.

5.3.2.3. Option 3 – One policy, one fund approach

Under this option, each fund would concentrate cohesion policy resources on a specific policy area. The main implication would be that high-cost investments, such as infrastructure in areas such as employment, education and social inclusion would be financed by the ESF. Similarly, investment in training and education, when linked for example to innovation or R&D or environmental technologies, would be financed by the ERDF.

The main advantage of this option would be policy coherence and simplification, as Managing authorities would know clearly which fund to choose for which action. Programming and managing both 'soft' and 'hard' measures in the same Operational Programme from a single fund would bring about major simplification in day-to-day programme management. Moreover, there could be more harmonisation of eligibility rules, since the nature of investment would no longer be a differentiating factor between the Funds. Concentration on thematic priorities would be facilitated by creating a clear link between thematic priorities and the funds.

The main disadvantage of this option is that it would be difficult to define clear demarcation in some policy areas (e.g. in the field of research, education, information society and business support.) Thus, overlap could continue to be a problem. Alt

Though this option might facilitate the implementation of complex actions on the ground, particularly relevant for actions promoting social inclusion, it might not encourage an integrated approach in addressing common challenges going beyond defined single policy areas.

Stakeholder views on coordination of instruments

Most contributions to the public consultation on the Fifth Cohesion Report called for a common set of rules for all Structural Funds as a legal framework in which to establish implementing provisions on subjects such as eligibility rules for expenditure, audits, financial issues, use of standard costs, etc. Some contributors stressed the possibility maintaining some degree of flexibility within the common set of rules, to achieve the aims of a specific fund and/or region. Others simply called for clearer definition, application and interpretation of existing rules, mainly with regard to eligible expenditure, so that joint projects receiving support from different funds (cross-financing) would not be hampered by incompatible rules. Contributors largely welcomed greater coordination between the ESF and ERDF, although there were mixed views on a multi-fund approach and cross-financing.

6. COMPARING THE OPTIONS

This section will draw on the analysis of the previous section and compare the different options. A number of options could also be combined.

6.1. Delivering EU added value

Different indicators are used to compare the options. Taking advantage of the modelling results, each option is assessed according to its contribution to GDP growth for each of the regions. Contribution to the Europe 2020 headline targets broadens the assessments for thematic concentration, visibility and predictability of funding for the ESF as well as coordination with other EU policies and financial instruments.

Under **geographical concentration of support**, Options 1 and 2 would ensure coverage of the entire population of the EU, at different aid intensities. Therefore, all EU regions would receive cohesion policy support, while Option 3 would ensure that cohesion policy resources were concentrated on lagging Member States only. While Options 1 and 2 both ensure a high level of aid intensity for lagging regions, only Option 2 provides more comprehensive population coverage through the intermediate region category and achieves the highest GDP growth of all options. Although HERMIN modelling results identify option 2 as generating higher levels of overall growth in the EU-27 over the longer run than under Option 1, QUEST modelling results identify Option 2 as slightly less positive than option 1.[123]

Under **concentration on EU priorities**, 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. Therefore, Option 2 contributes most to the headline targets, while Option 1 would lead to a fragmentation of cohesion policy interventions. Finally, Option 3 only concentrates on EU priorities in less developed Member States. Therefore, there are fewer incentives for concentration of national investments on EU headline targets in more developed Member States.

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. Option 2 provides flexibility to Member States to adjust allocations to their needs but does not guarantee the significance of ESF funding in view of the Europe 2020 objectives and targets if the allocation of structural funds decreases. Option 3 would, however, contribute less to the

123 The reason for the different results lays in the treatment of investments in innovation, research and development as well as human capital, which in Quest only induce their positive contribution over the very long run, while in HERMIN, the positive effects can already be identified over the medium term.

employment, education and poverty targets as well as other targets benefiting from ESF interventions, because of concentration on convergence countries only.

Under **coordination with other EU policies and financial instruments**, Options 1 and 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, and Option 3 provides no alignment whatsoever with other EU policies and financial instruments 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 lower geographical coverage.

Option 2 appears as most favourable, because it produces the highest GDP growth in the EU and best EU value added. Furthermore, Option 2 aims to align cohesion policy with the Europe 2020 headline targets, as well as a more efficient, result-oriented, strategic and integrated policy approach. It also takes into account problems signalled in different public consultations and exchanges with stakeholders and specialists in the field and tries to find concrete solutions for simplification, reinforced strategic programming, better governance, improved evaluation, performance and results and fairer policy architecture.

Table 1: Comparing the options for delivering European value added.

Geographical concentration	**No policy change**	**Growth-enhancing policy in line with Europe 2020 objectives**	**Convergence policy for lagging Member States**
GDP growth EU	0	+++	+
GDP growth developed regions	0	++	-
GDP growth in transition regions	0	+++	-
GDP growth less developed regions	0	++	+++
Employment 75% of the 20-64 year-olds to be employed	0	+++	+
R&D and Innovation 3% of the EU's GDP (public and private combined) to be invested in R&D/innovation	0	+++	+
Climate change **greenhouse gas emissions 20%** (or even **30%**, if the conditions are right) **lower than 1990** **20% of energy from renewables** **20% increase in energy efficiency**	0	+++	+

Education **Reducing school drop-out rates below 10%** **at least 40% of 30-34–year-olds completing third level education**	0	+++	++
Poverty / social exclusion at least **20 million fewer people in or at risk of poverty and social exclusion**	0	+++	++

6.2. Improving the performance of the policy

The options have been assessed on the basis of some World Bank principles for good practice in international conditionality outlined in section 5.2 and against their ability to address the problems identified in relation to performance in section 2.2. namely bottlenecks in policy, regulatory and institutional frameworks, unsound macro-fiscal conditions and insufficient incentives linked to performance in terms of achieving objectives and targets.

	Status quo	**Ex-ante conditionality**	**Performance framework**	**Macro-fiscal conditionality**	**Combined option**
World Bank principles:					
National ownership	0	++	++	+	++
Harmonisation	0	+	+	++	++
Transparency, predictability	0	++	++	+	++
Performance related problems:					
Bottlenecks in institutional frameworks	0	++	0	+	++
Unsound fiscal policies	0	+	0	++	++
Insufficient incentives linked to programme performance	0	+	++	0	++

As regards the *World Bank principles*, most options would ensure strong national ownership of the conditionality. The extent of regional ownership depends on the type of conditionality. For the performance framework and for the ex-ante conditionalities (dependent on where responsibility for implementing commitments lies) regional ownership will be strong. This is however not the case for the macro-fiscal conditionality. Harmonization, transparency and predictability would be ensured for all options through stipulating the rules governing the application of the conditionalities in the regulation.

As regards the ability of the options to address *performance-related problems* Option 1 does little (i) to ensure the strategic, regulatory and institutional preconditions needed for effective support from the funds and to (ii) incentivize the performance of the programmes in terms of attaining objectives and targets; leaving any system of incentives up to the Member State.

Option 2 would only address preconditions which are necessary for effective support; however would do little in incentivizing the actual performance of the programmes. At the same time, the fulfilment of the preconditions will bring benefits in terms of performance. Option 3 would only focus on incentivizing the performance of the programmes; however would not address preconditions which may hinder reaching the objectives and targets.

The preferred option is the combined ex-ante and ex-post conditionality option which would address a wide range of determinants of effectiveness. It would ensure that the strategic, regulatory and institutional preconditions which are necessary for the effective use of the funds are in place. It would provide incentives for Member States and regions to attain predefined objectives and targets of the programmes through continuous monitoring of progress. It would also ensure that the effectiveness of the funds is not undermined by unsound macro-fiscal policies, through reinforcing the rules governing the Cohesion Fund on macro-fiscal conditionality (with possible extension to the structural funds) and align it with the new Stability and Growth Pact enforcement measures to be adopted as part of the Sixth Economic Governance Package.

6.3. Streamlining delivery and minimising the risk error

The options for **streamlining delivery and minimising the risk of error** examine different reimbursement options, e-governance and assurance. The main differences are in the level of Commission involvement in assessment of management and control systems; the availability of reimbursement options linked to results; and the mechanisms for promoting e-governance in 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 cut the workload by around 4% compared to the no change option. It also respects the subsidiarity principle better than others options.

Table 1: Comparison of options in the field of streamlining delivery and minimizing error

	No policy change	Flexible approach	Prescriptive approach	Proportional approach
Efficiency	0	+	++	+
Flexibility	0	++	-	++
Administrative burden (EU)	0	+	--	++

Administrative burden (MA)	0	+	-	++
Administrative burden (beneficiary)	0	+	-	++

The options for **coordination of cohesion policy instruments** present a graduated approach. While Option 1, with its mono-fund programmes and cross-financing arrangements, does little to ensure a clear delimitation between the funds, Option 3, which clearly provides a delineation between the ESF and ERDF with its one policy/one fund approach, does not necessarily support the integrated approach inherent to cohesion policy. Option 2 offers the most balanced approach.

The criteria to assess options are efficiency (in terms of gains) and flexibility (to establish integrated programmes). Option 2 provides the greatest efficiency gains as well as the highest degree of flexibility. Option 1 would mean an additional administrative burden (because of cross financing provisions), and option 3 would create rigid demarcations.

Table 2: Comparison of options in the field of coordination of cohesion policy instruments

	No policy change	Facilitating integrated programming	One policy, one fund approach
Efficiency	0	+	+
Flexibility	0	++	-

7. MONITORING AND EVALUATION

The options presented in this Impact Assessment set out how policy objectives and design would be reformulated to address three particular issues. In this respect, monitoring and evaluation play an important role. This section sets out arrangements for monitoring and evaluating the different objectives for the policy. Arrangements are built from the bottom up, but aligned to deliver evidence on the policy's performance against EU goals.

Under all change options, monitoring and evaluation systems will be reinforced in comparison to the current situation. Proposed changes to the systems would improve the focus on results and alignment with the Europe 2020 strategy. They would provide for the definition of specific, measurable, achievable objectives as well as for appropriate indicators. This will ensure monitoring and evaluation of progress towards achieving EU goals and towards the **general objective** of reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions. Monitoring and evaluation results will continue to be presented in the Reports on Social, Economic and Territorial Cohesion. The 6th Cohesion Report is scheduled for adoption, in 2013 and will analyse social, economic and territorial disparities across EU Member States and Regions.

In terms of **specific objectives**, indicators will be included to monitor progress. More specifically:

– **Delivering European added value** – These will include the Europe 2020 indicators, particularly those developed around the headline targets, including outputs and intermediate results. These will be used in annual implementation reports, strategic reports, evaluations carried out by the Commission and Member States. They will also be reflected in the performance framework used to assess progress towards these targets.

> **Mainstreaming of climate change investments**
>
> With regard to the minimum expenditure on climate-related investments, a clear cross-cutting obligation will be included to identify where programmes promote climate action, renewable energy or energy efficiency so that the EU is able to set out clearly how much of its spending relates to sustainable energy and climate action. Clear benchmarks, monitoring and reporting rules for all relevant EU policy instruments need to be established, with: 1) common tracking procedures for climate-related expenditure; and 2) target-setting in all relevant policies and monitoring of results. Thus, cohesion policy programmes will need to include specific objectives related to climate, accompanied by a results indicator.
>
> The tracking of climate-related expenditure will be performed according to three categories, based on an established OECD methodology (the so-called "Rio markers")[124]: expenditure where climate is the principal (primary) objective (counted as 100% - climate related only); expenditure where climate is a significant, but not predominant objective (counted as 40% - significantly climate related); and expenditure not targeted to climate objectives (counted as 0% - not climate related).

– **Effectiveness** - ensuring cohesion policy can achieve maximum impact. This will be based on programme indicators designed in line with EU2020 and with the specific needs of Member States and regions. Progress over time and against targets will be reviewed.

– **Efficiency** – ensuring that the right balance is struck between minimising administrative costs and burden and minimising the risk of error and/or risk to the EU budget. Indicators will include the reduction in administrative cost and burden.

Under existing regulations, monitoring and evaluation are primarily the responsibility of the Member States. This will remain so in future. However weaknesses identified in the course of evaluating the current and previous programme periods will be addressed through strengthened minimum requirements.

Monitoring and Reporting – a focus on results

The following provisions will improve the quality of monitoring and allow the Commission to monitor progress at EU level:

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

[124] "Measuring aid targeting the objectives of the Rio Conventions", OECD-DAC note, May 2009.

- 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. Programme-specific indicators will be used where necessary.

The performance of operational programmes will be monitored regularly through annual implementation reports which would include analysis of the rate of achievement. There would be lighter reporting in the early years of the programme, with reporting on results and progress towards the EU2020 objectives in selected years.

Strengthened evaluation

The role of evaluation will be strengthened and more clearly focused on providing evidence of effects, with a better monitoring framework for reporting on outputs and results. Too often in the past, evaluations focused on bottlenecks to implementation rather than the effects of interventions.

Ex ante evaluation will be obligatory for all programmes. Its main role will be to test and improve the intervention logic of programmes and the appropriateness of the indicators and targets set. Each programme will have an evaluation plan, and evaluations will be reviewed regularly by the monitoring committees. All evaluations will be made public. For each priority axis, managing authorities shall carry out at least one evaluation on the effects and effectiveness of interventions during the programming period. In the final year of the programme, they will provide a synthesis of evidence available on performance. This will support the Commission's ex post evaluation which will provide an assessment of the funds' contribution to economic, social and territorial cohesion and the Union objectives of smart, inclusive and green growth.

The Commission will continue to provide guidance and support to improve the quality of evaluations undertaken in Member States. This includes a particular interest in improving the rigour of evaluations including using counterfactual impact evaluation methods for human resource development interventions, enterprise support interventions and possibly area-based initiatives. Ex post cost benefit analyses of major infrastructure projects will also be encouraged. More rigorous qualitative methods are being explored with a view to stimulating good practice. Exchanges of good practice between Member States are an important element of building evaluation capacity. Such exchanges will continue and intensify in the run-up to the next programming period and during it.