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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposals for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the European Regional Development Fund and on the Cohesion Fund

on a mechanism to resolve legal and administrative obstacles in a cross-border context

on specific provisions for the European territorial cooperation goal (Interreg) supported by the European Regional Development Fund and external financing instruments

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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

1. SCOPE AND MISSION

The mission of the European Regional Development Fund (ERDF) and Cohesion Fund (CF) is laid down in the Treaties: economic, social and territorial cohesion. This means reducing regional and national disparities across a broad range of themes: innovation, competitiveness, jobs, environment, transport, education and health infrastructure and sustainable urban development.

A crosscutting priority is cross-border co-operation under European Territorial Co-operation ('ETC' or 'Interreg') and the European Cross Border Commitment (ECBC).

To enable consistency with other EU policies under shared management, the rules on delivery and implementation of the ERDF and the Cohesion Fund are governed as far as possible by the Common Provisions Regulation ('CPR'). This sets out common provisions for seven shared management funds at the EU level:

- CF: Cohesion Fund
- EMFF: European Maritime and Fisheries Fund
- ERDF: European Regional Development Fund
- ESF+: European Social Fund Plus
- AMIF: Asylum and Migration Fund
- ISF: Internal Security Fund
- BMI: Border Management Instrument

2. LESSONS LEARNED FROM PREVIOUS PROGRAMMES

In terms of the **strategy, priorities and impact of the policy**, the ex post evaluation differentiated between themes:

- Of high added value and impact: support to SMEs, smart specialisation strategies and facilitating regions to move up the economic chain, the low carbon economy, sustainable urban development and regional co-operation
- Of lower impact, such as support to large enterprises and airport investments (except in the outermost regions).

Simplification: the need to reduce the administrative burden. The *ex post* evaluations of the ERDF and the Cohesion Fund found that management, control and audit systems were over-complex. This was a source of administrative uncertainty and delays in implementation. Complexity was a particular issue in EU-15 countries where the funding was relatively smaller, suggesting a need for proportionality.

The need for flexibility to respond to emerging needs: The *ex post* evaluation of the ERDF and the Cohesion Fund found that the adaptation of programmes in the economic crisis was one of the success stories in the 2007-2013 period and should be built upon.

The potential of financial instruments (FIs): The *ex post* evaluation of the ERDF and the Cohesion Fund found that FIs have the potential to be a more efficient means of funding investment in some policy areas, but there are delays in implementation and it is a challenge to spread their use.

The Commission carried a public consultation on "EU funds in the area of cohesion policy" (10 January 2018 to 9 March 2018). The key conclusions is the need for simplification: stakeholders found complex procedures to be by far the main obstacle to success, followed by heavy audit and control requirements, lack of flexibility, difficulty to ensure financial sustainability and delays in payments.

In addition respondents on balance strongly supported:

- Cohesion policy for all regions (though with a continued focus on the less developed).
- Policy innovation, including smart specialisation strategies and smart investment more generally.
- The continuation and development of thematic concentration.
- A focus on local challenges (especially sustainable urban development).
- Interregional cooperation, both cross-border and across Europe.

3. POLICY OPTIONS

The options outline alternatives for dealing with the reduction in the budget:

- Option 1: A cut across the board.
- Option 2: Reducing the contribution to the more developed regions.
- Option 3: Maintaining support in key areas (thematic concentration) and reduction in other themes.

Option 3 is the preferred option, for reasons including:

- To maintain a focus on the themes of highest EU added value, where evaluation evidence suggests the policy has had the highest impact.
- Many of the greatest challenges (globalisation and economic transformation, transition to the low carbon and circular economy, environmental challenges, migration and pockets of urban poverty) increasingly affect many regions across the EU, including more developed ones. EU investment is both necessary and a sign of solidarity.
- Maintaining critical mass - investments in the more developed regions are already small in per capita terms.
- A vast majority of stakeholders in the public consultation support ERDF in all regions. This scenario ensures also better visibility of cohesion policy funds in all Member States.

4. PRIORITY OBJECTIVES, THEMATIC CONCENTRATION

Eleven thematic objectives used in 2014-2020 have been simplified to five clear policy objectives in this regulation:

1. A smarter Europe - innovative and smart industrial transformation.
2. A greener, low-carbon Europe.
3. A more connected Europe - mobility and regional ICT connectivity.
4. A more social Europe - implementing the European Pillar of Social Rights.
5. Europe closer to citizens – sustainable and integrated development of urban, rural and coastal areas through local initiatives.

This simplification enables synergies and flexibility between various strands within a given objective, removing artificial distinctions between different policies contributing to the same objective. It also lays the basis for thematic concentration.

In order to ensure that, in a context of budget reduction, there is still a critical mass of investment, the ERDF and the Cohesion Fund Regulation maintains requirements for thematic concentration. The majority (65% to 85%) of resources will be concentrated on contributing to the policy objectives which evaluation evidence and the impact assessment suggest have the highest added value, as well as the greatest contribution to EU priorities:

- PO1:"a smarter Europe by promoting innovative and smart economic transformation";
- PO2: "a greener, low-carbon Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management".

In order to enable flexibility, thematic concentration criteria will apply at national level.

For countries with:	**minimum % "PO1"**	**minimum % "PO2"**
GNI below 75%	35%	30%
GNI 75-100%	45%	30%
GNI above 100%	60%	*PO1 + PO2 = minimum 85%*

5. COHERENCE WITH EU PRIORITIES AND WITH OTHER EU POLICIES

Ex ante conditionalities will continue, but as **'enabling conditions'**. They will be fewer and tightly focussed on areas that have the most impact on the effectiveness of the ERDF and CF support. In addition, they will be revisited across the period.

There will be **greater alignment with the European Semester process**. At the programming stage, Member States will identify relevant CSRs from the latest two years (2019 and 2020), to include in the programmes. CSRs will then be discussed between Commission and Member State (and at monitoring committee meetings) as part of the annual policy dialogue.

The Common Provisions Regulation leads to greater coherence and alignment of rules across the 7 **shared management funds** concerned.

Given thematic concentration on PO1, an important question is **coherence with Horizon Europe**. Horizon Europe will focus on 'European excellence' (the generation and exploitation of new knowledge, leading edge research), the ERDF on 'regional relevance' (diffusion of existing knowledge and technology to places that need it, embedding it locally via smart specialization strategies, building local innovation systems).

To enable consistency with the **Connecting Europe Facility (CEF),** there is enhanced synergy and complementarity where the CEF will focus in particular on the "core network" while the the ERDF and the Cohesion Fund will also provide support for the "comprehensive network", including ensuring regional and local access thereto as well as transport connections within urban areas.

6. INTERREG AND EUROPEAN CROSS BORDER MECHANISMS

Building on the success of previous Interreg programmes, we are proposing an evolution along the following lines:

- **Crossborder programmes** should change from primarily managing and distributing funds toward acting as institutions of exchange, facilitating cross-border activity and being a centre for strategic planning.
- The addition of **co-operation outside the EU**. This will take the form of (1) a specific strand for outermost regions (2) the incorporation of current IPA/ENI funding to support enlargement and cooperation with neighbourhood countries.

Interreg will continue to be able to draw on all of the priority objectives (where appropriate) and although funded by ERDF will be covered in an ETC regulation which will set specific rules for the Interreg context.

In many cases cross-border barriers (especially in relation to health services, labour regulation, local public transport and business development) stem from differences in administrative practices and national legal frameworks. These administrative obstacles are difficult for programmes to address alone, requiring decisions beyond programme structures.

The Commission proposes to facilitate solutions with **an "off-the-shelf" legal instrument to allow the use of one Member State's rules in a neighbouring Member State**. Since the action is voluntary and optional, being used (or not) at the initiative of Member States concerned, it respects subsidiarity and proportionality. It also has no cost incidence for the EU budget.

The instrument offers two options: a European Cross-Border Commitment ("ECBC") (which itself enables derogation from normal rules) or a European Cross-Border Statement ("ECBS") (signatories undertake formally to legislate to amend normal rules). The mechanism will cover joint projects for any item of infrastructure with impact in a cross-border region or any service of general economic interest provided in a cross-border region.

7. SIMPLER DELIVERY SYSTEM

There is evidence of substantial administrative costs associated with the ERDF and the Cohesion Fund, estimated in a recent study[1] at 3% of average programme costs for the ERDF and 2.2% for the Cohesion Fund. The administrative burden on beneficiaries (including SMEs) is higher.

Most of the measures simplifying ERDF and Cohesion Fund will be created by the CPR. Many are difficult to quantify financially in advance, but the study estimated that:

- Greater use of **simplified cost options** (or payments based on conditions) for the ERDF and the Cohesion Fund could substantially reduce total administrative costs – by 20-25% if these options are applied across the board.

- **A more proportionate approach to control and audits** would imply a major reduction in the number of verifications and the audit burden for 'low risk' programmes. This would reduce total administrative costs of the ERDF and the

[1] Spatial Foresight & t33, New assessment of administrative costs and burden in ESI Funds, preliminary results.

Cohesion Fund by 2-3% and costs for affected programmes by a much greater amount.

Further simplifications include:

- The combination of different funds – and of financial instruments and grants – is codified in simple rules;
- There will no longer be specific rules for revenue generating investments;
- There will be no major project process (instead, strategic projects will be followed by the monitoring committee).
- Funding will be simplified, for example through the seal of excellence approach.
- Financial instruments will be better integrated into the programming and implementation process from the outset and the ex-ante assessment streamlined accordingly - flexibility is proposed for the combination of grants with financial instruments;
- The eligibility rules have been clarified, and rules on management costs and fees have been simplified while keeping them performance based to encourage efficient management;
- There will be no additional separate reporting on financial instruments as these are incorporated under the same reporting system as all other forms of finance;