EUROPEAN COMMISSION

Brussels, 6.10.2011
SEC(2011) 1139 final

COMMISSION STAFF WORKING PAPER

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

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

on specific provisions concerning the European Regional Development Fund and the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006

and

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

on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006

and

Proposal for a
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal

{COM(2011) 614 final}
{SEC(2011) 1138 final}

{COM(2011)611 final}
{COM(2011)612 final}

EXECUTIVE SUMMARY

This is the Impact Assessment of the legislative proposal for the regulations laying down provisions on the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Territorial Cooperation goal.

It is part of a package of Impact Assessments which also includes the Impact Assessment of the European Regional Development Fund, the Cohesion Fund, the European Social 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), and the Impact Assessment of the ESF Regulation.

1. PROBLEM DEFINITION

European regional policy has an important role to play mobilising local assets and focusing on the development of endogenous potential. However, as the Budget Review has highlighted, the "EU budget should be used to finance EU public goods, actions that Member States and regions cannot finance themselves, or where it can secure better results".

The IA focuses exclusively on the 3 areas are where experience shows that adjustments are needed.

1.1. Support to enterprises

Cohesion policy support for enterprises has produced significant results. There is evidence that in 2000-2006 cohesion policy has contributed to creating at least 1 million gross jobs in supported projects. However, the policy is not sufficiently focused on SMEs and on innovation.

In the case of SMEs, access to finance on the market for investments is particularly a problem. The case for supporting large firms is different, as lack of access to finance typically does not apply to large enterprises. Empirical evidence shows that direct aid for SMEs is more effective, while "for larger companies crowding out of private investment may prevail over positive effects." The funding of productive investments of large enterprises where public intervention is not necessary has led to criticisms that funding is given to firms which do not actually need it, and that the funding is therefore crowding out private investment instead of having added value.

The focus of enterprise support varies between MS, with a strong investment support focus in some, and a strong emphasis on ‘softer’ measures such as innovation in others. However, in other MS support which is not linked to innovation still has a very strong role. The current scope of the ERDF is defined too broadly and allows for generic business support for stimulating entrepreneurship in all sectors, regardless of whether a market failure exists related to that sector, and irrespective of the sector’s contribution to growth and employment.

Thus, the main problem with the current scope of the ERDF is that the scope of aid to enterprises is defined too broadly and that the effectiveness and value added of aid to firms needs to be maximised.

1.2. Support for investment in infrastructure

The main issue which has been identified with respect to the scope of transport infrastructure funding in current cohesion policy is the lack of ability to ensure sufficient concentration on EU priorities. Although cohesion funding has focused on priorities as defined by the TEN-T guidelines, but not necessarily on those parts which were identified as largest European value added at the time of their definition. The challenge for cohesion policy will be to effectively contribute to the identified €30 billion investment needs in core TEN-T infrastructure in Cohesion countries until 2020.

In addition, as the improving the coordination of the different EU instruments in TEN-T financing is important. To date the TEN-T programme has focused on soft measures such as the financing of feasibility studies, and the Cohesion Fund has focused on investment in infrastructure. The issue of coordination has become particularly relevant as the scope of the Cohesion Fund as defined by the Treaty covers physical investment in TEN-T, which the newly proposed Connecting Europe Facility will also finance.

1.3. Territorial cooperation

With regards to territorial cooperation, the added value of European **territorial cooperation** lies in the fact that it offers possibilities for joint action which are needed to address challenges that increasingly cut across national/regional boundaries:

- transboundary problems;
- sharing good practice;
- cooperation where there are economies of scale and critical mass;
- cooperation aimed at improving governance;
- cooperation on the EU’s external borders on issues related to safety and stability, and mutually beneficial relationships.

The European Territorial Cooperation objective is financed by the ERDF, with a total budget of € 8.7 billion which accounts for 2.5 % of the total 2007-13 allocation for cohesion policy.

Despite its ability to address the range of issues listed above, in the current period, there is scope for improvement in European Territorial Cooperation programmes:

- lack of strategic focus resulting in broad intervention strategies which made it difficult to achieve clearly-identifiable impact;
- lack of effective coordination to find compromises between the requirements of the EU Regulations and the legal frameworks of the involved Member States.

1.4. Justification for EU action

EU action is justified both on the grounds of the objectives laid out in Article 174 of the Treaty and on the subsidiarity principle. The right to act is constituted by Article 3 of the Treaty on European Union, which states that "[the Union] shall promote economic, social and territorial cohesion and solidarity among Member States", as well as by Article 175 of the TFEU which explicitly requests the Union to implement this policy by means of Structural Funds, and Article 177 which defines the role of the Cohesion Fund.

2. OBJECTIVES

The **general objective** is defined in Article 176 of the TFEU, that the aim of the ERDF is "to help to redress the main regional imbalances in the Union through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions". As stipulated in Article 177 of the Treaty, the aim of the Cohesion Fund is to finance "projects in the fields of environment and trans-European networks in the area of transport infrastructure".

Given the scope of this IA, the **specific objectives** are to ensure that the ERDF and the Cohesion Fund are spent in:

- an effective way;
- an efficient way;
- a way which provides a high European value added.

The **operational objectives** relate to the individual issues discussed and are the following:

- Enterprise support to ensure that investment support to enterprises contributes to sustainable growth and employment and that support for innovation contributes to developing local and regional potential.
- Infrastructure investment: to ensure that there is a sufficient concentration on European priorities.
- Territorial cooperation: to ensure that there is a sufficient focus on European priorities, with flexibility for MS and regions to choose thematic objectives.

3. POLICY OPTIONS

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

3.1.1. Option 1 – No policy change

- The scope of the ERDF continues to be broad focusing on productive investment and development of endogenous potential.
- Direct aid is given primarily but not exclusively to SMEs.

3.1.2. Option 2 – More targeted support to large enterprises focusing on R&D, innovation and key enabling technologies

- Aid for general productive investment to create and safeguard jobs is limited to SMEs.

- Support for development of endogenous potential to both large and small firms by supporting regional and local development and research and innovation.

3.1.3. Option 3 – No grants to large firms; only loans and equity finance for SMEs

- All productive investment is supported through non-grant aid through innovative financing instruments.

3.2. Scope of infrastructure support through the ERDF and Cohesion Fund

3.2.1. Option 1 - Status quo

- The ERDF and the Cohesion Fund continue to finance major infrastructure in all regions of the EU, with funding concentrated in less developed regions. Funding from the Cohesion Fund is only available in poor MS.

- In less developed regions the focus is on both priority projects of European interest as identified by the new TEN-T framework, as well as on secondary infrastructure.

- In addition, the TEN-T programme continues to fund infrastructure projects with high EU added value in developed regions, concentrating in particular on soft interventions (e.g. feasibility studies, etc.)

- National operational programmes cover the infrastructure investments, with priorities being set at national level.

3.2.2. Option 2 - Enhanced focus on European priorities in major infrastructure investments in less developed regions and Connecting Europe Facility in more developed regions

- The Cohesion Fund finances infrastructure investments in the area of strategic European priorities. The fund is only available in poor MS.

- The ERDF would target projects of national and/or regional interest.

- Major infrastructure investments are covered by national programmes and alignment of investment with EU priorities is ensured through a binding list of strategic investment projects to be realised until 2020, selected and negotiated with the Member States and included in the Partnership Contracts. Funding for these projects will be ringfenced.

- Ex-ante conditionalities in the area of strategic planning will accompany the focus on strategic investments in sustainable transport.

- Investments of national and regional significance would be prioritised according to their contribution to sustainability and their network contribution.

- The dedicated CEF would complement cohesion policy investment in physical infrastructure, not only soft investments. The CEF would finance infrastructure projects with high EU added value. € 10 billion would be ring-fenced inside the financial allocation for the Cohesion Fund for the CCEF.

3.2.3. Option 3 – Enhanced focus on national infrastructure through the Cohesion Fund

- The Cohesion Fund finances infrastructure investments in the area of strategic European priorities in the area of core and comprehensive TEN-T.

- The ERDF would target projects of national and/or regional interest.

- As in option 2, major infrastructure investments are covered by national programmes.

- The CEF would focus its investments in the more developed Member States only and finance infrastructure projects with high EU added.

- The Cohesion Fund would fund projects in the less developed Member States and therefore be geographically complementary to the CEF. There would be no transfer of €10 billion from the Cohesion Fund to the CEF.

3.3. Territorial Cooperation

3.3.1. Option 1 – No policy change

- Priorities for cooperation programmes would continue to be broadly defined.

- No formal link would be established between cooperation programmes and Convergence/Competitiveness programmes.

3.3.2. Option 2 – Thematic concentration and strengthened link to other programmes

- The number of thematic objectives that cross-border and transnational cooperation could choose from would be limited in number.

- Cooperation aspects would be an integral part of the overall strategic framework.

3.3.3. Option 3 – Integration of cooperation in the regional programmes

- No more separate Territorial Cooperation programmes.

- Cooperation activities would be carried out in the framework of the existing regional programmes which would include an opening to provide for cooperative action.

4. COMPARING THE OPTIONS

Scope of enterprise support funded by the ERDF

Under the no policy change option, a relatively broad scope of intervention allows Member States sufficient flexibility to choose the areas of intervention that most meet their challenges, with most of the support going to SMEs and RTDI. However, investment support for large firms remains, which can lead to the crowding out of private investment by public funding.

Under option 2, support to large companies would be limited to specific investments designed to support the development of endogenous potential of the region, notably in the field of innovation, new technologies and research. cooperation and joint initiatives between large firms, SMEs, and other institutions. Furthermore, under this option, there is scope to increase the role of non-grant based instruments especially in relation to investment support which generally associated with lower risk and involves increased deadweight loss compared with investment in innovation and high risk activities. These measures would reduce deadweight loss, but also reduce flexibility for MS.

Under Option 3, prohibiting grant-based support to large firms increases the efficiency of funding and greater leverage effects. However, innovative and research activities necessary to achieve EU headline targets may be discouraged as the non-repayable support is more effective for innovative, R&D intensive projects far from the market. A move from non-refundable to refundable forms of aid to large enterprises could also imply a significant rise in administrative costs for managing authorities.

On the basis of improving the effectiveness of support, as well as its contribution to local and regional potential and growth and employment, Option 2 is the preferred option.

Scope of infrastructure support through the ERDF and Cohesion Fund

Under the no policy change scenario, the benefits which EU funding for infrastructure has produced would continue. However, focused on European network priorities would remain suboptimal, and infrastructure investments in richer regions would lead to efficiency losses. Without coordination between cohesion policy and the CEF, EU funding for infrastructure would continued to be fragmented.

Under Option 2, an enhanced focus on European priorities, the CEF, and ringfencing €10 billion from the Cohesion Fund would enable concentration on EU priority projects. However, this option reduces flexibility for MS and regions.

Option 3 would allow for the focus on infrastructure investments to remain in Convergence regions, where basic infrastructure needs are the most. The main advantage of this option is it allows Cohesion countries full flexibility to address regional and national priorities in these regions. The main drawback of this option is the non sufficient concentration of the Cohesion Fund on core TEN-T projects.

On the basis of EU added value and coordination between the CEF and Cohesion Fund, Option 2 is the preferred option.

Territorial cooperation

Under the no policy change option, European Territorial Cooperation programmes have greater flexibility in choosing the policy areas they would like to address. However, an overall lack of strategic focus and no clear definition of expected programme outputs results. Furthermore, this option makes it difficult to ensure complementarity with other EU programmes.

Option 2 would more firmly align cooperation programmes with the Europe 2020 Strategy. It would lead to an improved intervention logic within the programmes resulting from the setting of programme objectives to the definition of expected outputs and results. Furthermore, synergies with regional operational programmes would be increased. Nevertheless, this option could lead to less flexibility in programme design.

Option 3 would lead to increased synergies and benefit the regional programme by adding an EU dimension. Nevertheless, it would only allow for cooperation on specific projects, and not foster the long-term development of an integrated strategy for a cross-border or transnational territory. There would also be a risk that the EU dimension would be neglected in programming. Joint projects would be more difficult to develop without a support structure.

On the basis of better focus on European priorities, developing a clear programme intervention logic and improved added value, Option 2 is the preferred option.

5. MONITORING AND EVALUATION

The monitoring and evaluation systems for cohesion policy will be reinforced compared to the current situation, with an improved focus on results and alignment with the Europe 2020 Strategy. In concrete terms, this would mean the following:

- Programmes would include a clear articulation of the changes sought, how this would contribute to the Europe 2020 targets, and how spending the resources on particular interventions (outputs) will contribute to change (results). This will be expressed in output and result indicators. A set of common indicators, aligned with EU2020 objectives, will be used where relevant.
- Each programme would include a performance framework fixing quantified milestones for each priority axis, established on the basis of a limited number of programme indicators in order to provide a clear indication of progress towards delivery priorities linked to Europe 2020.
- These milestones for the performance framework would be proposed by the Member State and agreed between the Commission and the Member States.
- The Partnership Contract would contain a summary of the milestones, methodology and the key principles.

The performance of operational programmes would be monitored regularly on the basis of the set of programme indicators. Annual Implementation Reports would contain reports on outputs achieved compared to targets with analysis of reasons for under or over achievement of targets. Monitoring Committees would reflect on the need for any changes or other initiatives to ensure that the programme stays on course. Results will be monitored also and reported on as data becomes available and will be discussed in the Monitoring Committee and Annual Review meetings.

It is envisaged that there would be two formal review points to examine progress against the milestones defined in the performance framework. The Commission would undertake the first review of progress in attaining the agreed milestones in 2017 on the basis of Annual Implementation Reports in relation to the absorption and outputs. A second review will take place in 2019.