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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

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}
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This report commits only the Commission services involved in its preparation and does not prejudge the final form of any decision to be taken by the Commission.

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Impact Assessment

1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

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. 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. 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 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: the results of the ex-post evaluations carried out on the 2000-2006 programmes; results of the public consultation which was summed up in the Fifth Progress Report on Economic and Social Cohesion adopted by the Commission in June 2008; the Budget Review[2]; the Fifth Cohesion Report[3]; results of the public consultation following the adoption of the Fifth Cohesion Report in November 2010; the proposals for the multi-annual financial framework[4]; and 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. 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:

[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

[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.

(1) 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 one hundred contributions, mainly from stakeholders with a close interest in 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.

(2) 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, 19 February, 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.

(3) Fifth Cohesion Report. Fifth Cohesion Forum on 31 January and 1 February 2011; public consultation from 12 November 2010 to 31 January 2011.

(4) Consultation on the Future Trans-European Transport Network from 4 May 2010 to 15 September 2010.

1.3. Main results of public consultation

A public consultation on the Conclusions of the Fifth Cohesion Report was held between 12 November 2010 and 31 January 2011. A total of 444 contributions were received in response to a series of questions about the future of cohesion policy. A summary of the results was published on 13 May 2011[6].

The results of this public consultation touched on some issues relating to the problems addressed in this IA. The results show that there is general agreement with the notion of concentration of funding. There is, however a concern about decisions on concentration not being taken at the right level. In particular, many contributions emphasise the need for flexibility and the need not to overlook territorial specificities. Moreover, several expressed concern that limiting priorities too much at EU level would not allow the flexibility necessary to define appropriate regional development strategies. Regional and local authorities, although generally in favour of a limited number of priorities, were concerned about any pre-defined thematic concentration at EU level which might constrain their individual socio-economic development strategies.

A public consultation was also held on the Future Trans-European Transport Network from 4 May to 15 September 2010[7]. A clear majority of stakeholders support the approach towards

[6] '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.

[7] 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[7].

identification of infrastructural needs (removal of bottlenecks and missing links, efficient infrastructure management) from a genuinely European perspective. The majority of stakeholders, especially at Member State and regional level, also support better coordination between different financial instruments that fund TEN-T at EU level, namely cohesion policy, research funding, the TEN-T programme and the EIB's interventions. However, there is little support for a single fund. In the consultation, some stakeholders rejected it as putting transparency at risk, while some Member States emphasised the need to focus on the development needs of cohesion regions. Nevertheless, there is strong support among stakeholders including some Member States, for the idea of an integrated financial framework, guiding investments in TEN-T across the different funding instruments. Such a framework could contribute to an optimisation of the use of EU funding and remove the confusion that is sometimes felt when it comes to EU support.

Stakeholder views will be incorporated throughout the text linked to individual problems.

2. PROBLEM DEFINITION

Based on the evidence generated by successive evaluations, described below, the scope of this Impact Assessment is limited to three areas relating to the scope of the ERDF and Cohesion Fund. While both the ERDF and Cohesion Fund co-finance investments in a number of different areas, including environment and climate change, evidence from the evaluations suggest that while these areas still suffer from significant funding gaps[8], in the next programming period, major changes are not required to the regulatory basis of the ERDF and Cohesion Fund in particular with regard to their scope of intervention in the area of environment and climate change. Moreover, concentration on a limited number of priorities has already been covered in the Impact Assessment for the Common Provisions Regulation, thereby highlighting the need for the different Funds to concentrate on Europe 2020 headline targets such as climate change.

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[8] See annex 6 and Institute for European Environmental Policy (IEEP) (2011), 'Cohesion policy and sustainable development'. The study of the IEEP examines environmental spending through cohesion policy in the current period. Although it does recommend a shift in focus in environmental spending towards interventions which provide both economic and environmental benefits, the study does not recommend discontinuing any of the current funding for environment. It also does not recommend spending in any new areas where cohesion policy is not already active. In particular, the study recommends that environmental spending focuses on the following areas:

- clean water supply, waste water treatment and waste management
- clean urban and railways systems
- energy savings investment
- renewable energy sources
- eco-innovation and environmental technologies
- climate change adaptation / natural hazards management
- green infrastructure and ecosystem services

The refocusing of environmental expenditure is addressed entirely through thematic objectives and earmarking for renewable energy and energy efficiency. These issues are dealt with in the IA of the General Regulation. There is no need for additional changes in the scope of the regulations, as the reasons for public intervention (i.e. market failure in the form of externalities and public goods) are not disputed. Planned environmental expenditure for the period 2007-2013 is contained in Annex 6 to this IA.

2.1. Description of the problem

Recent reports and studies have shown that there has been a paradigm shift in regional policy, focusing on the factors that generate growth at the regional level[9]. Determinants of growth at regional level can be summarised as follows:

- Accumulation of factors of production, usually physical and human capital, the productivity of which can be increased through innovation by developments in technology, knowledge and know-how;[10]
- Natural geography which includes the endowment in natural resources;[11]
- Economic geography which includes aspects such as access to large product or factor markets or the density of economic activity within a region.[12]

This paradigm shift raises the following question: **Should regions simply strengthen selected factors such as improving human capital, upgrading infrastructure and offering adequate labour markets and business environments or must they improve across the board if they wish to become competitive (in the case of less developed regions) or remain competitive (in the case of more developed regions)?** Both the OECD and the World Bank have concluded that regions should promote their own economic growth by mobilising local assets and resources so as to capitalise on their specific competitive advantages, rather than depending on transfers and subsidies to help them grow[13].

In this respect, European regional policy has an important role to play in 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'.[14] Thus, the key question is how best to focus interventions on European public goods. In this respect, the ERDF and Cohesion Fund can make an important contribution to three types of public goods:

[9] World Development Report 2009 'Reshaping Economic Geography', World Bank, November 2009; OECD report 'How Regions Grow: Trends and Analysis', 2009. Farole, T., Rodriguez-Pose, A., Storper, M. (2009) Cohesion Policy in the European Union: Growth, Geography, Institutions. Report Working Paper. February 2009. Barca, F (2009) An Agenda for a Reformed Cohesion Policy. A Place-Based Approach to Meeting European Union Challenges and Expectations 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 di Lavoro, Istituto di Studi e Analisi 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.

[10] In the exogenous growth model the Solow residual depends on the rate of technological change and the rate of employment growth. Endogenous growth theory supports the finding regarding the importance of technological development and human capital for growth, which can be promoted with the appropriate policy incentives.

[11] The idea that long term development needs can only be met if some level of natural capital is preserved. See 'Framing Sustainable Development - The Brundtland Report – 20 years on', UN report, April 2007.

[12] Summarised in e.g. World Development Report 2009.

[13] World Development Report 2009 'Reshaping Economic Geography', World Bank, November 2009; OECD report 'How Regions Grow: Trends and Analysis', 2009.

[14] 'The EU Budget Review', COM (2010) 700, 19.10.2010.

– delivering public goods in employment, R&D and innovation;

– providing necessary infrastructure in terms of both transport and environment;

– addressing cross-border problems and spill-overs.

There are other areas where the ERDF and Cohesion Fund have an important contribution to make to the provision of EU public goods[15], but they are not all dealt with in this Impact Assessment. In particular, the important role of these funds in contributing to investments in the fields of environment and climate change is not addressed, despite significant investment needs in these areas[16], as successive evaluations and academic research point to no particular problems in these areas as regards the scope of intervention of the funds. Thus, this IA focuses exclusively on the three areas where experience shows that particular problems have arisen.

The problems addressed in this Impact Assessment in terms of re-defining the scope of the Funds in relation to those activities with the greatest European added value should be distinguished from the issue of thematic concentration outlined in the Common Provisions Regulation Impact Assessment, which relates to how spending should be prioritised within Member States to achieve EU policy objectives.

General issues of coordination of Common Strategic Framework instruments (ERDF, ESF, CF, EAFRD, EMFF) with other EU policies and financial instruments are addressed in the Impact Assessment on the Common Provisions Regulation. Coordination with specific policies and instruments as they relate to the scope of the ERDF and Cohesion Fund, and as they relate to the European Territorial Cooperation Objective, is addressed in this Impact Assessment.

2.2. Major drivers of the problem

With regards to the ERDF in the 2007-2013 period, Article 3 of the ERDF regulation determines the scope of assistance available from the Fund. It defines the scope of the ERDF

[15] The Funds acts as a lever for the implementation of other EU policies, in particular in the areas of energy, employment, education, research and development, innovation, creative industries linked to innovation, social inclusion, health, and industrial policy.

[16] The transition to a low carbon economy, in particular in the area of energy efficiency of buildings and renewable and low carbon energy and heat supply will require significant funding according to PRIMES model results. Annual average investment needs for the period from 2016 to 2020 are presented in the table below (assuming an ‘effective technologies scenario with fragmented global action’ as analysed in SEC(2011)288.

€ billion (nominal prices, rounded)	Annual additional investments by 2020 cost effective pathway in the 2050 Roadmap
Power plants and industrial equipment (incl. CHP and steam)	23
Buildings and appliances (incl. services)	38
Total	61

Investment needs in the environment are also significant. Compliance costs of the Urban Waste Water Directive, the public and private investments for collection and treatment of urban wastewater, until full compliance with the requirements of the Directive are achieved, would amount to €45 billion for the 27 MS. Funding needs for municipal waste in the EU in period 2014-2020 are estimated at €7-12 billion, of which €2.5-6 billion should be funded from the EU (the rest by users and national budgets). Financing for implementation of the Natura 2000 is estimated to amount to €5.8 billion, of which 50-75% could come from the EU budget.

as encompassing aid to productive investment to create and safeguard employment, primarily to SMEs, investment in infrastructure, the development of endogenous potential and technical assistance. Articles 4 and 5 of the ERDF regulation distinguish between the two main objectives, the Convergence Objective and the Regional Competitiveness and Employment (RCE) Objective[17]. The ERDF's broad scope in the area of aid to enterprises results in lack of leverage of funded investments and crowding out of private investment.

Article 2 of the **Cohesion Fund** regulation defines the scope of the Fund's assistance in the 2007-2013 period. The Cohesion Fund finances activities such as trans-European transport networks, notably priority projects of European interest as identified by the Union; or in energy and transport, projects in energy efficiency, use of renewable energy, developing rail transport, supporting intermodality, strengthening public transport, etc., provided they clearly present a benefit to the environment. Although the basis for the scope of intervention lies in Article 177 of the Treaty on the Functioning of the European Union (TFEU)[18], the main problem with the scope of the Cohesion Fund has been two-fold, its focus (ability to deliver the most added value) and coordination with other EU policies and financial instruments, particularly the TEN-T programmes.

The **European Territorial Cooperation** objective is financed by the ERDF and supports cross-border, transnational and interregional co-operation programmes. Cohesion policy support for territorial cooperation has gone from being a EU Initiative (INTERREG) in the 2000-2006 period to a mainstream objective in the 2007-2013 period. Nevertheless, there is a continuing issue surrounding its ability to deliver maximum effectiveness and the most European added value. This relates also to coordination with mainstream ERDF national or regional programmes.

These issues, relating to the focus of the policy and coordination with other EU policies and financial instruments, are discussed in more detail below.

2.2.1. Scope of aid to enterprises funded by the ERDF

The provisions of the current regulation state that '*The ERDF shall contribute towards the financing of: (a) productive investment which contributes to creating and safeguarding sustainable jobs, primarily through direct aid to investment primarily in small and medium-sized enterprises (SMEs) [and] development of endogenous potential by measures which support regional and local development. These measures include support for and services to enterprises, in particular SMEs.* '

As highlighted by successive ex-post evaluations, ERDF support to enterprises has achieved some success. In practical terms, aid for productive investment has focused primarily on creating and safeguarding jobs. In some cases, this has been very beneficial to a particular area, attracting new businesses. In eastern Germany, an innovative study compared enterprises assisted to similar non-assisted enterprises. An average grant of € 8,000 per

[17] According to the current regulation, regions targeted by the Convergence objective are those whose per capita GDP measured in purchasing power parities is less than 75 % of the EU average. Other regions are targeted by the Regional Competitiveness and Employment objective.

[18] With regard to the Cohesion Fund, Article 177 of the TFEU stipulates: 'A Cohesion Fund […] shall provide a financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure.'

employee generated around € 11-12,000 of additional investment, demonstrating the clear leverage effect.[19] Studies have also shown that Member States and regions eligible for Convergence objective funding are particularly attractive to foreign multinationals, since ERDF support can create more favourable conditions for investments[20]. However, there is potential to improve the effectiveness and efficiency of enterprise support through redefining the scope of eligible activities. In particular there is a strong consensus that the current scope of the ERDF is insufficiently focused on SMEs and innovation.

1. Support for SMEs

Empirical evidence strongly supports the case for a focus on SMEs, in particular in the case of investment support when low levels of access to financing are problematic, but other market failures are absent. A report of the European Court of Auditors justifies support for enterprises which have difficulty in accessing loans (start-ups and SMEs) in the following way:

> 'For lenders it can be difficult to assess individual loan applications and the risks involved, especially if a borrower does not have an established track record (start-ups). In such a situation the borrowers can guarantee the loan to the lender through the provision of collateral, but those who do not have sufficient collateral may be denied access to credit even with viable business propositions.'[21]

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.'[22] Moreover, recent evaluations on the impact of the economic crisis have shown that the distortive effect on competition in the single market of supporting large enterprises is also more significant than for SMEs, and that in times of economic downturn SMEs are particularly hard hit[23]. 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, that they would have made the investment concerned even without financial help, and that the funding is therefore crowding out private investment instead of adding value.[24] In addition, large enterprises tend to be in a better position to re-locate parts of their business in order to find an optimal mix of conditions for the whole enterprise, which has led to relocation of firms rather than additional investment[25].

[19] Gefra & IAB, Work Package 6c: Enterprise Support – an exploratory study using counterfactual methods on available data in Germany (July 2010).

[20] Roberto Basile, Davide Castellani and Antonello Zanfei (2008) 'Location Choices of Multinational Firms in Europe: the Role of National Boundaries and EU Policy', Journal of International Economics, vol. 74, pp. 328-340.

[21] European Court of Auditors (2011) Special Report No 4. The Audit of the SME Guarantee Facility. Paragraph 18.

[22] The Role of Cohesion Policy in achieving Europe 2020 objectives. Evidence based conclusions. Warsaw, June 2011. p. 11.

[23] This is confirmed by the ongoing evaluations of ERDF programmes in Romania in the 2007-2013 period, which determined that half of Romania's SMEs have been 'catastrophically' or 'very highly' affected by the current economic crisis, and only 2% declared that they had not been impacted.

[24] See e.g. 'Multinationals reap the reward' Financial Times, 02.12.2010. Further articles are available on http://www.ft.com/eu-funds under the section 'Part 3 – Business'.

[25] Relocation of large firms is a recurring event which in number of cases is reported in the press see http://www.ft.com/eu-funds section 'Part 3 – Business

Empirical literature on evaluations of state aid is relatively scarce. Nevertheless, the effect of enterprise support has been assessed by some studies, in nearly all cases concluding that only 10 to 20 per cent of the projects are not subject to total or partial deadweight loss through crowding out of private capital.[26] Therefore, effectiveness of support will increase for those investments where deadweight loss is lower or where capital market failures may operate; namely in start-up companies, in small businesses and for technological upgrading, research and development and human capital training.

DG REGIO has carried out three evaluations which have looked into the differentiated impacts of enterprise support according to the scale of firms:

- A study of various forms of ERDF support to enterprise in the Visegrád countries[27] found that 'the bigger the company the smaller the job creation impact of the support'. Although only some schemes had enough observations for statistical significance, they concluded 'all arguments considered it looks probable that greater specific impact can be expected from the supports targeting the SMEs than from the supports targeted at the larger/transnational companies'.

- An ongoing study of ERDF grants across Italy using rigorous econometric techniques[28] is finding significant differences in key indicators. For example cost per job is €80k for SMEs against €500k for large ones.

- A study of Danish subsidies for innovation and research co-operation[29] found significant impacts in terms of employment and investment for smaller firms (less than 150 employees), but could not detect impacts for larger firms. The latter may however be a result of small sample size – a recurrent problem in the rigorous measurement of impact on large enterprises.

2. Support for research, development and innovation

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. In some MS support which is not linked to innovation still has a very strong role.

Figure 1 - Enterprise support structure from ERDF (% of total ERDF allocation) under Convergence and Competitiveness goals in the programming period 2007-2013 (as for 2009)

Member States

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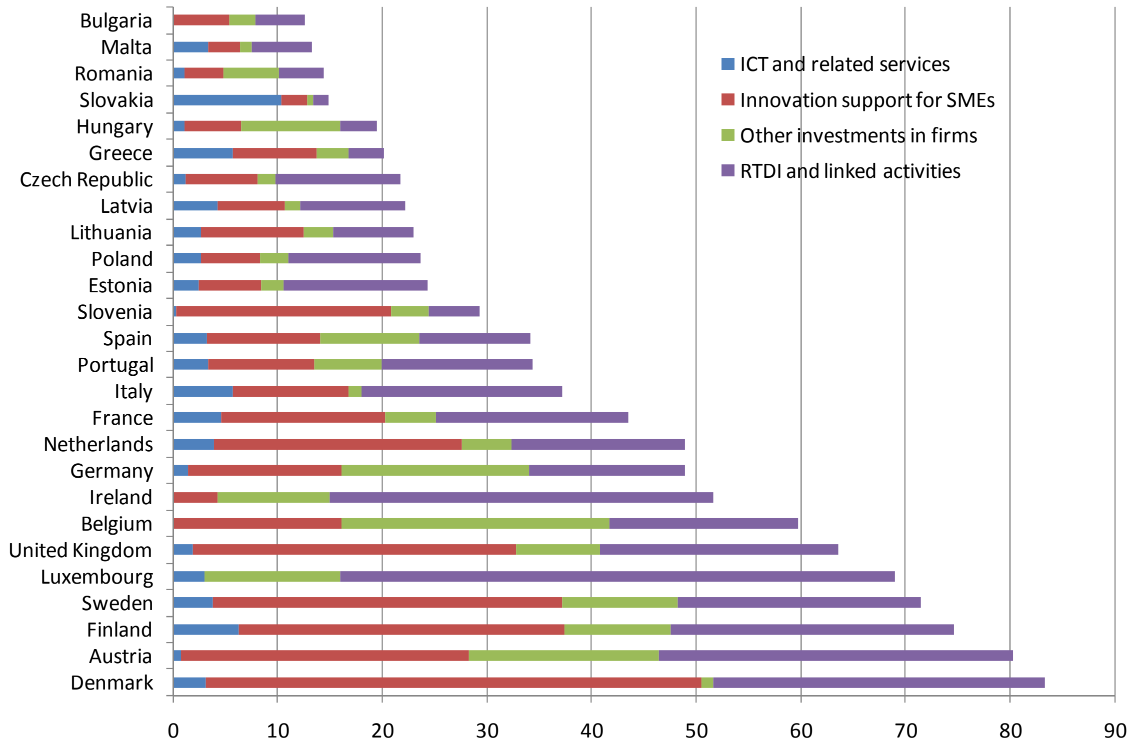
[26] For a literature review incl. a discussion of the methodologies applied see Gerling 2002. For empirical studies, applying heterogeneous methodologies and analysing different kinds of aid schemes see e.g. Honohan 1998, Barry 2003 and Lenihan 2004 for Ireland, Arup Economics and Planning 2000 for the UK or Gerling 2002 and Ragnitz 2003 for Germany.

[27] TARKI (2010) ' Impact of Cohesion Policy on employment level and quality in the Visegrád countries'

[28] European Commission (forthcoming in Jan 2012) 'Counterfactual Impact Evaluation of Cohesion Policy: examples from enterprise support': http://ec.europa.eu/regional_policy/information/evaluations/impact_evaluation_en.cfm

[29] Centre for Economic and Business Research, Denmark (2010) 'An Analysis of Firm Growth Effects of the Danish Innovation Consortium Scheme'



As discussed above, the problem with the current scope of the ERDF is that the scope of aid to enterprises is defined too broadly and does not necessarily address market failure. The provisions for the current regulation allow 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. The World Bank has argued that public support targeting specific firms in the hope that they become anchors in the local economy and have large multiplier effects, have for the most part not stimulated sustained growth in lagging regions[30]. This has led to many countries across the world in shifting to regional economic development policies which focus more on 'soft' interventions, such as investing in innovation and supporting research institutes and science and technology parks, particularly in more developed regions. This also involves more targeted support measures to attract clusters of firms and focuses on the potential to develop the knowledge-based economy. Such a shift has started in cohesion policy interventions by the ERDF, however, this shift remains incomplete, with generic business support in the absence of identifiable market failures resulting in inefficiencies. Evidence suggests that the broad scope of current funding has led to inefficiencies, particularly where investment support has been given to large enterprises, such as multinationals or large hotels, where it is difficult to establish the EU added value.

Finally, there is scope to increase the role of non-grant based instruments especially in relation to investment support, as investment support is generally associated with lower risk and involves increased deadweight loss compared with investment in innovation and high risk activities. The Commission proposal for the MFF has also stated that 'it is proposed that cohesion support for enterprises and projects expected to generate substantial financial returns

[30] World Development Report 2009 'Reshaping Economic Geography', World Bank, November 2009;

will be delivered primarily through innovative financial instruments.'[31] By end of 2009 of the €8.2 billion allocated for SMEs[32], €6.7 billion will be invested in the form of non-repayable grants.

2.2.2. Scope of infrastructure support funded by the ERDF and Cohesion Fund

Infrastructure financing is supported by various financial instruments at EU level, including the TEN-T budget, the ERDF and the Cohesion Fund, and loans from the EIB. Spending on various types of infrastructure from the ERDF and Cohesion Fund in 2007-2013 is around € 128 billion, including spending on RTD, ICT, energy, transport, environmental, cultural and social infrastructure. The contribution of cohesion policy to most types of infrastructure has been significant. In particular in the field of environment, cohesion policy interventions have brought substantial benefits.[33] The focus of this section is on transport infrastructure and in particular the relationship between the ERDF and Cohesion Fund on the one hand, and the recently proposed Connecting Europe Facility on the other.[34]

Cohesion Fund and ERDF co-financed investments have made a major contribution to the development of transport systems across the EU, by facilitating the efficient movement of goods and people between and within Member States and by promoting economic and social development in both Convergence and Competitiveness regions. In the current period, 28 % of the total ERDF allocated has been directed on transport investments, amounting to € 34 billion. The contribution of the ERDF in the transport sector has been significant: 100.000 km of roads and 4.000 km of rail were built or reconstructed, accounting for 24 % of motorway expansion and 13 % of high-speed rail expansion respectively in the EU over the 2000-2006 period.

To date, EU funding of infrastructure has clearly produced benefits. In a 2010 special report, the European Court of Auditors found that through co-financing the development of rail infrastructure, the EU has contributed to providing new possibilities for trans-European rail transport.[35] In terms of the contribution to physical accessibility of regions, accessibility analysis has shown the positive effects of transport investment on territorial cohesion in peripheral and rural areas[36]. Connectivity is also important, allowing Member States and

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[31] A Budget for Europe 2020 – Part II: Policy Fiches (COM(2011) 500 final) p. 27.

[32] Categories of expenditure 03, 04, 06, 09, 14, 15, 68

[33] An additional 20 million people have been connected to wastewater collection and treatment in the period 2000-2006 thanks to EU funds. Without EU funding, compliance with the *acquis* in waste water, water and waste would have been even more difficult. EU funds represented 38% of funding of environmental infrastructure in the cohesion policy countries (ES, PT, GR, IE) in 2000-2006, and 30% in the new MS.

[34] The Connecting Europe Facility will focus on investment in the area of transport, energy and ICT networks. However, as the focus of cohesion policy on energy transmission networks and on strtategic ICT networks is very low, and therefore complementarity with the CEF investments in strategic infrastructure is ensured, this issue is not dealt with further in the IA.

[35] The Report found that EU co-financed infrastructure projects delivered the planned infrastructure to specification, and, once completed, created new and improved rail transport possibilities on key sections of the Priority Projects. Measurable improvements have been achieved on lines dedicated to high-speed passenger services that are operating fully as planned. European Court of Auditors, Special Report No 8/2010: 'Improving transport performance on trans-European rail axes: have EU rail infrastructure investments been effective?'

[36] TRACC, 2011, TRACC Transport Accessibility at Regional/Local Scale and Patterns in Europe, Interim Report, ESPON. Condeço Melhorado A., Gutiérrez J., Garcia Palomares, 2011, Spatial impacts of road pricing: Accessibility, regional spillovers. and territorial cohesion, Transportation Research Part A, 45, 185-203.

regions to fund infrastructure investments which connect secondary cities to major growth poles. Thus, transport infrastructure investments, in particular of a regional or local nature, have important implications for territorial cohesion and accessibility in countries where the transport network is limited and fragmented. The ex post evaluation[37] found that '*In Spain, Greece and Ireland, in particular, the support provided by the ERDF to investment in transport led to significant improvements in the links between major centres both between and within regions and to substantial savings in travel time*.' Moreover, the ex post evaluation also found that '*in a number of cities, Athens, Oporto, Lisbon and Dublin, especially, the expansion of public transport systems reduced congestion significantly below what it otherwise would have been, so cutting travel time as well emissions.*'

Financing of TEN-T (€ billion)

	1993-1999	2000-2006	Share 93-06	2007-2013	Share 07-13
TEN-T budget	2.2	4	2%	8	2%
Cohesion Fund	8.3	17	7%	35	9%
ERDF	7.5	9	4%	8	2%
EIB	26.5	45	18%	54	14%
Other sources	63.4	208	69%	284	73%
TOTAL	107.9	283		389	

With regard to the Trans-European Networks, the ERDF and the Cohesion Fund have traditionally been the main source of finance from the EU budget. This has contributed to reducing imbalances in transport endowment in lagging regions across the EU. Cohesion policy contributes 11% of the overall finance. Another contributor from the EU budget is the TEN-T programme with 2%. It co-finances projects on the TEN-T network. However, EU financial instruments in their current form have so far not been able to bring about a full and timely completion of all projects involved.[38]

This is why the Commission has proposed the establishment of a Connecting Europe Facility, the details of which are subject to a separate Impact Assessment. Nevertheless, the establishment of the Connecting Europe Facility has implications for the scope of the Cohesion Fund and ERDF in the area of infrastructure in particular with regards to European added value.

The main problem is that while TEN-T infrastructure has been significantly supported through the ERDF and Cohesion Fund, those parts which have been identified with the highest European value added have not necessarily been supported. For example, of the 15 TEN-T priority projects eligible for cohesion policy support, only 6 have received significant support.[39]

[37] Applica (2010) 'Ex Post Evaluation of Cohesion Policy Programmes 2000-2006: synthesis report'

[38] Commission Staff Working Paper. Impact Assessment Accompanying document to the White Paper 'Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system', Brussels, 28.3.2011, SEC(2011) 358.

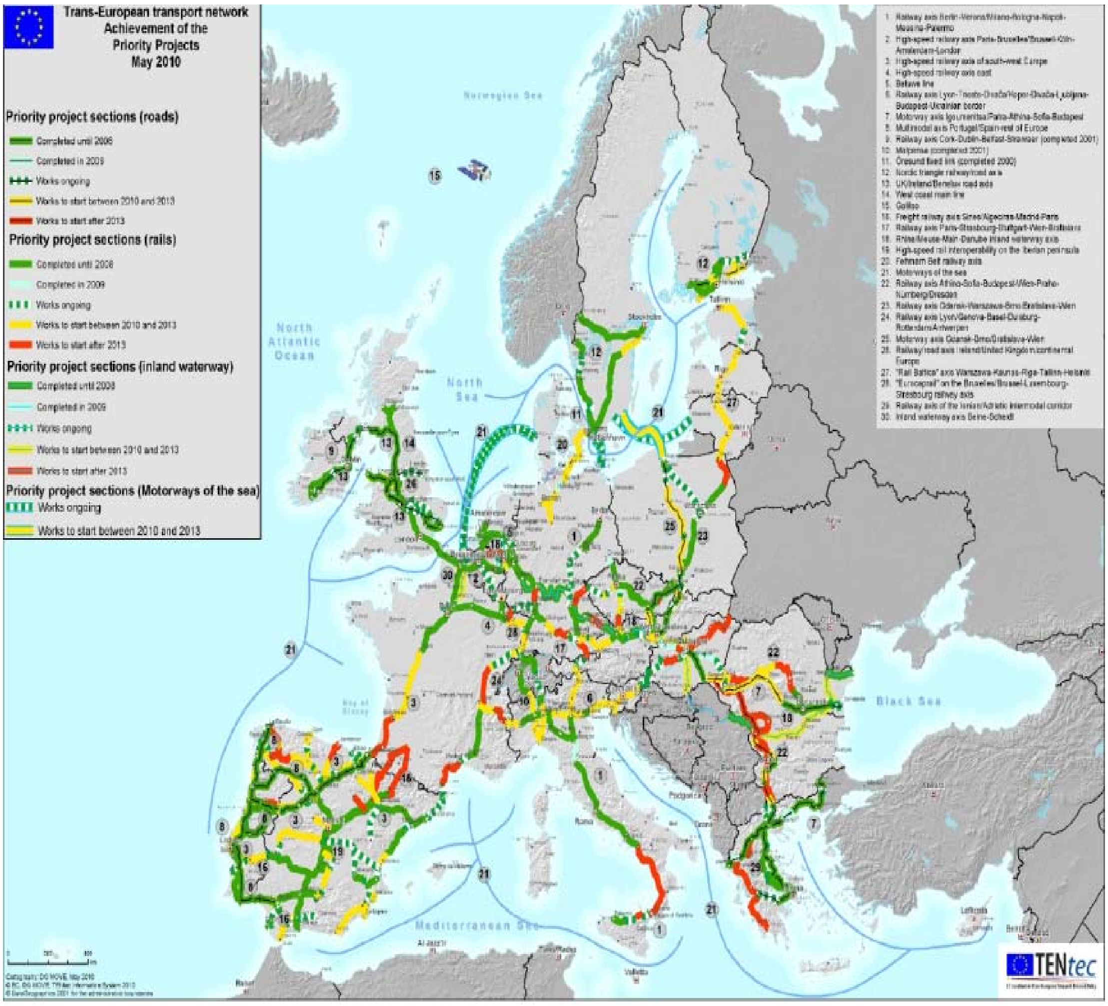
[39] These were namely: PP 3: High speed railway axis of South-West Europe - 1236 km financed by the Cohesion Fund, PP 6: Railway axis Lyon-Trieste-Divaca/Koper-Ljubliana-Budapest-Ukraine border - 173 km; PP No. 7: Motorway axis Igoumenitsa/Patra-Athina-Sofia-Budapest - 51 km; PP 8. Multimodal axis Portugal/Spain-rest of Europe - 141 km of road and 340 km of rail; PP 19: High speed rail interoperability in the Iberian Peninsula - 360 km; PP 22: Railway axis Athina-Sofia-Budapest-Wien-Praha-Nurnberg/Dresden - 436 km

Moreover, nationally and EU-financed infrastructure projects have also largely focused on developing individual priority projects rather than on creating a network. By 2010, only a total of 5 out of a total of 30 TEN-T priority projects were completed. Out of the nearly € 400 billion in projected costs for the 30 priority projects, around € 164 billion had been invested by end of 2009, and close to € 80 billion is projected for the period 2010-2013. The remaining 37% of the investments are foreseen after 2013.[40] Substantial elements are missing in completing the core European transport network. As Figure 2 demonstrates, there are significant gaps, such as for example the cross-border interconnectors between Spain and Portugal or between Poland and the Baltic countries.

The TEN-T policy identifies infrastructure of high European value added and introduces a new concept of core and comprehensive TEN-T networks. This would allow for better prioritisation of investments according to European value added. Significant needs for investments into core European transport infrastructure exist in cohesion countries until 2020. Recent estimates increased these from €16.5 billion to €30 billion.

[40] Ibid.

Figure 2 - Progress on TEN-T priorities



A majority of stakeholders clearly support the approach towards the identification of infrastructural needs (removal of bottlenecks and missing links, efficient infrastructure management) from a genuinely European perspective. Although the ERDF and Cohesion Fund have contributed to financing infrastructure investment, this has sometimes been at the expense of investments in key European network infrastructure, with a bias towards infrastructure investment of national and regional rather than EU significance.

Moreover, the majority of stakeholders, especially at Member State and regional level, also support better coordination between different financial instruments that fund TEN-T at EU level, namely cohesion policy, research funding, the TEN-T programme and the EIB's interventions. 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.

2.2.3. 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[41]. Cohesion policy encourages regions and cities in different EU Member States to work together and learn from each other through joint programmes, projects and networks. In the period 2007-2013 the European Territorial Cooperation objective (formerly the INTERREG EU Initiative) covers three types of programmes:

- 52 cross-border co-operation programmes along internal EU borders. ERDF contribution: €5.6 billion.

- 13 transnational co-operation programmes covering larger areas such as the Baltic Sea, Alpine and Mediterranean regions. ERDF contribution: €1.8 billion.

- The interregional co-operation programme (INTERREG IVC) and three networking programmes (Urbact II, Interact II and ESPON) cover all 27 Member States of the EU. They provide a framework for exchanging experience between regional and local bodies in different countries. ERDF contribution: € 445 million.

The European Territorial Cooperation objective is financed by the ERDF. The budget of €8.7 billion for this objective accounts for 2.5 % of the total 2007-2013 allocation for cohesion policy, including the allocation for Member States to participate in EU external border co-operation programmes supported by other instruments (IPA and ENPI). For European Territorial Cooperation, the ERDF regulation is applicable. Article 6 of the regulation sets out the priorities for ERDF assistance under the European Territorial Cooperation objective and provides for broad coverage of activities that can be financed.

The Territorial Cooperation objective addresses the following problems:

– **Transboundary problems**. These can only be solved with the cooperation of all regions concerned to avoid disproportionate costs for some, and freeriding by others (e.g. environmental pollution in transnational seas or rivers, development of sustainable transport concepts in broader geographical areas, sustainable and low carbon energy supply and distribution).

– **Sharing good practice and learning**. Territorial cooperation is an important instrument for enhancing competitiveness and cohesion. It can help spread know-how and sharing of good practice[42].

– **Scale**. Territorial cooperation can help to target comparative advantages. Thus, the solution to a specific problem becomes more effective in a larger context due to economies of scale and the achievement of a critical mass, such as e.g. in the establishment of clusters to foster innovation or the joint use of cross-border health infrastructure. In transnational and transregional programmes, European financing facilitates the implementation of advanced projects such as technology transfers,

[41] Commission Staff Working Paper (2011) 'The added value of the EU budget', 29.6.2011 SEC(2011) 867 final.

[42] ESPON 2013 Synthesis Report, New Evidence on Smart, Sustainable and Inclusive Territories, November 2010.

environmental protection investments, development of renewable energy sources – types of projects that weaker regions could not afford[43].

– **Governance.** Territorial cooperation plays an essential role in improving the coordination of sector policies, actions and investments on a cross-border and transnational scale. It promotes joint governance of shared resources, and supports development of innovative solutions to common challenges. It offers possibilities for knowledge transfer and capitalisation among EU regions and Member States[44].

– **Relations with EU neighbours.** Cooperation programmes on the EU's external borders contribute to safety and stability, as well as friendly and mutually beneficial relationships with the EU's neighbours.

In addition, the 2007-2013 period has seen the emergence of new forms of territorial cooperation, tailor-made responses to macro-regional challenges. At the request of the European Council, two macro-regional strategies have been prepared by the Commission for the Baltic Sea and the Danube river basin[45]. Macro-regional strategies are broad-based integrated instruments covering several Member States and regions and focusing on the alignment of policies and funding to increase the overall impact of public spending.[46]

Based on evidence from successive evaluations and feedback from stakeholders, there is scope for improvement in European Territorial Cooperation programmes:

1. Lack of strategic focus

The main issue with territorial cooperation programmes, as confirmed by the results of the ex-post evaluation of the 2000-2006 period, is that they do not always focus on a limited number of priority topics, but adopt rather broad intervention strategies, making it difficult to achieve clearly-identifiable impacts[47]. Although in the current period, a number of programmes have adopted a more strategic approach and developed strategic initiatives, there is considerable room for improvement in terms of the intervention logics of the programmes. In particular, some evaluations have noted that some territorial cooperation programmes 'foresee criteria and mechanisms for strategic projects, but so far such strategically generated projects have rarely been implemented. Several programmes would like to move more in the direction of strategic projects, but the main challenge seems to be reaching consensus between partner countries. The strategic importance of a project is often defined at the regional level rather than being based on common interests[48]'.

[43] 'Added value of European Territorial Cooperation for regional development of Poland in the context of cohesion policy after 2013', Report commissioned by the Ministry of Regional Development of Poland November 2009.
[44] Evidence given by Professor Charles RICQ-CHAPPUIS, Scientific Director of COEUR (Observation Centre of the European Regions at Geneva University) at the hearing on the future design of the Territorial Cooperation Objective, REGI committee, European Parliament, 30 November 2010.
[45] Communication 'European Union Strategy for the Baltic Sea Region', COM(2009) 248, 10.6.2009 and Communication 'European Union Strategy for Danube Region', Brussels, 8.12.2010, COM(2010) 715.
[46] This Impact Assessment does not address specifically the question of macro-regional strategies.
[47] INTERREG III EU Initiative Ex-Post evaluation, p. 3,4.
[48] INTERACT Cross-programme evaluation of ETC programmes in South-East Europe - Operational aspects Final Report, June 2010, p. 3.

In addition, discussions in the High Level Group with Member States have highlighted the need for more coordination and strategic focus, both at general policy and individual programme level. The INTERACT position paper on European Territorial Cooperation post 2013 from July 2010 took the following view: 'In the past INTERREG programmes have been criticised for lacking focus and as a result producing little visible effect. There are number of reasons for this ranging from a vague definition of objectives on the EU level, the limited funding available to cooperation programmes and their wide diversity, insufficient targeting of interventions on programme level and dispersed use of funds, etc. These factors arise for a number of good reasons but there is wide agreement to ensure greater focusing in future regardless of such issues.' The same paper has taken the view that 'due to the varied maturity of cooperation across the EU and its territorial diversity it is, however, quite impossible to limit the sectors or themes for European Territorial Cooperation. Flexibility is needed to respect the specifics of each programme area. Focus, however, must be ensured on the programme level by selecting a limited number of intervention areas and setting clear and measurable targets.'

2. Coordination

It is important to recognise the differences between the so-called 'mainstream' Convergence and Competitiveness objectives and the European Territorial Cooperation objective when it comes to the programme management and implementation framework. Cross-border, transnational and interregional cooperation programmes operate in a multi-country environment. This means finding effective and efficient compromises between the requirements of the EU regulations and the legal frameworks of the Member States involved. As a result, many ETC stakeholders have called for ETC-specific requirements either in a separate regulation or in a separate extended section of the Common Provisions Regulation. However, a major recommendation of the ex-post evaluations of the 2000-2006 period was the need to establish more pro-active and ongoing interaction with the Convergence and Competitiveness programmes and other territorial cooperation programmes operating in the programme area, to ensure complementarity, coordination and synergies. The evaluations also explicitly recommend that a more complementary and integrated approach should also be developed for the post 2013 period'.[49]

2.3. Justification for EU action

Successive enlargements have dramatically increased differences across the EU in terms of levels of GDP per capita, productivity and employment[50]. In this regard, the EU has an important role to play. Article 174 of the Treaty on the Functioning of the European Union (TFEU) states that:

> *'In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer*

[49] INTERREG III EU Initiative Ex-Post evaluation, p. 9
[50] See Chapter 1 of the Fifth Cohesion Report.

from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions. '

The goal of economic, social and territorial cohesion is promoted with three EU funds, of which two, the ERDF and the Cohesion Fund are discussed in this IA.

As stipulated in Article 176 of the TFEU, 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, 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'.

With regard to the Cohesion Fund, Article 177 of the TFEU stipulates: 'A Cohesion Fund (…) shall provide a financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure. ' Articles 170 and 171 in turn define the goals of the EU in relation to trans-European transport networks (single market, cohesion and common foreign and security policy).

The EU's right to act in the field of transport is enshrined the TFEU, especially in Title VI, which makes provision for the Common Transport Policy and in Title XVI on the trans-European networks. Article 192 TFEU also provides a legal basis for addressing the environmental sustainability of the transport system. Pursuant to Articles 90 and 91 TFEU, the common transport policy should contribute to the broader objectives of the treaties. The goal of the common transport policy is to remove obstacles at the borders between Member States so as to facilitate the free movement of persons and goods. To this end, its prime objectives are to complete the internal market for transport, ensure sustainable development, promote better territorial cohesion and integrated spatial planning, improve safety and develop international cooperation.

2.4. How would the problem evolve, all things being equal?

The need to encourage increased business investment in R&D in coming years will only grow. As highlighted in the accompanying document to the Innovation Union Communication, high R&D intensity sectors in the EU are generally smaller than in the US and Japan and contain proportionately more SMEs, which invest less per firm than larger companies. Bridging the gap between the EU and the US would require a substantial increase in the share of high-tech, high R&D intensity sectors in the EU economy, but this is hindered by the fact that few R&D intensive SMEs grow into large corporations capable of gradually shifting the structure of the economy towards large, high R&D performing and wealth creating sectors.[51] This challenge calls for a strong focus of policy on innovation in SMEs and a concentration of resources on R&D of the available aid to larger companies.

In a no policy change scenario post-2014, a large proportion of **aid to enterprises** for productive investment would continue to go to SMEs making a significant contribution to growth, innovation and employment. In the 2007-2013 period, cohesion policy will support

[51] SEC(2010) 1161 final Commission Staff Working Document. "A Rarionale for Action." Accompanying document to the Europe 2020 Flagship Initiative Innovation Union

the creation and growth of SMEs, in particular linked to entrepreneurship, access to finance, research and innovation, technology transfer, access to information and communication technologies or environmentally friendly production. About €27 billion (7.9% of the total allocation) is allocated to such support dedicated specifically to SMEs. It is expected that these needs will be as great, if not greater, in the next period. Other investment support to both large and small businesses, including productive investment and the provision of aid to large enterprises providing services in the abovementioned areas, is expected to account for another €28 billion (8.1% of the total allocation). This indicates that significant resources are likely to be made available in the next period for investment support. However, given the scale of the challenge, there is a risk that much of the benefits could be lost if it is not targeted on investments that are most likely to enhance long-term growth.

With regard to **infrastructure**, the contribution of cohesion policy to investment would continue to be significant. In the period 2000-2006 cohesion policy contributed to financing 5 106 km of motorways and 7 260 km of railways.[52] The cost of EU infrastructure development to match the demand for transport has been estimated at over €1.5 trillion for the period 2010-2030. Completing of the TEN-T network requires about €540 billion until 2020, out of which some €215 billion can be referred to the removal of the main bottlenecks. Cohesion policy investments in transport between 2007 and 2013 are concentrated in the Convergence regions, with funding split as follows:

- TEN-T projects across all transport modes have been allocated approximately €38 billion (11% of the total of cohesion policy investments and an increase of 65% over the 2000-2006 period). About half of that will be allocated to road infrastructure and the remainder to rail.

- Overall almost € 41 billion (12% of the total) has been allocated for road infrastructure, including TEN-T and national, regional and local roads.

- For rail infrastructure, a total of €23.6 billion (6.8%) has been allocated, including TEN-T projects.

- Other allocations include: urban transport: €8.1 billion (2.3%), ports and inland waterways: €4.1 billion (1.2%), multimodal transport and intelligent transport systems: €3.3 billion (1%); airports€1.9 billion (0.5%).

However, issues would remain in relation to the contribution to European networks and the EU added value of investment. In addition, the benefits of investments for regional development will not be maximised, as infrastructure investment will continue in richer regions where the added value in terms of regional development is small. Coordination between different EU instruments, in particular between cohesion policy, the TEN instrument and funding from the EIB would be less than optimal.

EU added value is substantial where the success of actions is heavily dependent on cross-border spill-overs e.g. in the development of a Trans-European Network, climate change, research and innovation. EU intervention through the ERDF and Cohesion Fund strongly incentivises cooperation and exchange of know-how between actors across the EU leading to the proliferation of innovative solutions and good practices beyond individual regions or

[52] The figures include new infrastructure and reconstruction of existing infrastructure.

Member States[53]. With regard to **territorial cooperation**, the ex-post evaluations of the 2000-2006 period acknowledge the difficulties of quantifying the impact of INTERREG programmes, although they do provide evidence to suggest that they have had an impact such as:

- creation or maintenance of 115 200 jobs and 5 800 start-ups and new businesses,
- more than 3 900 businesses enhanced or diversified,
- 63 000 agreements or conventions to facilitate co-operation along the borders
- 1 030 transport infrastructures built or supported,
- 18 000 km of roads, railways, routes and paths built or upgraded,
- 12 000 networks and co-operation structures created to further promote and intensify co-operation.

Thus, the baseline scenario foresees a prolongation of the current policy, which involves maintaining the current scope for the ERDF, Cohesion Fund and Territorial Cooperation objective. Investment from the ERDF and Cohesion Fund has resulted not only in significant positive impacts on economic growth but also in the reduction of socio-economic disparities across the EU. However, the lack of focus in terms of scope has been highlighted in numerous stakeholder consultations and ex-post evaluations. A continued lack of focus in terms of scope would result in fragmentation and lack of critical mass to achieve visible results, a crowding out of private investment and deadweight loss, as well as a lack of focus on real bottlenecks to growth. While the baseline scenario is a viable alternative and one which has evolved over a number of years in a process of incremental improvement, continuation of the current arrangements could perpetuate a number of deficiencies present in the delivery arrangements.

3. OBJECTIVES

The **general objective** of the ERDF is defined in Article 176 of the TFEUnamely '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, 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'.

The **specific objectives** are to assist Member States and regions to promote smart, sustainable and inclusive growth in line with the Europe 2020 strategy by 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 IA, the specific objectives are to ensure that the ERDF and the Cohesion Fund are spent in:

[53] 'EUROPE 2020 A strategy for smart, sustainable and inclusive growth Brussels', COM(2010) 2020, 3.3.2010, p. 11.

- **an effective way** – which means that they are used in a way which helps to make a significant contribution to economic and social development;

- **an efficient way** – ensuring the efficient use of resources, concentrating them where public funding is necessary;

- a way which provides a **high European value added** – this can be ensured by either adding volume or scope to existing national activities – in line with EU priorities - or by refocusing national or regional funds according to European priorities.

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.

3.1. Consistency with horizontal objectives of the European Union

The origins of the ERDF and Cohesion Fund lie in the birth of the single market in the mid 1980s. With the expansion of the single market, all EU regions have experienced and will continue to experience a mix of opportunities and adjustment needs, as outlined in the Monti report on the single market[54]. The Cohesion Fund in particular plays a key role in upgrading the infrastructure of lagging Member States, which is essential to ensure interconnection of the single market. The ERDF complements this by assisting structural change in regions.

As noted before, there is room for further improvement with regards to more focus and coordination with other European policies and financial instruments; the challenge being to ensure concentration on those investments within programmes that will best deliver results, and to ensure coordination of funding with other instruments.

Investments co-financed by the ERDF and Cohesion Fund act as a lever for the implementation of other EU policies, in particular in the areas of environment, transport, energy and climate, employment, education, research and development, innovation, creative industries linked to innovation, social inclusion, health, and industrial policy. The delivery system is also linked to other EU policies, e.g. it ensures that EU public procurement rules are respected. Funding from the ERDF and Cohesion Fund is complementary to other EU funding, e.g. with the ESF, EAFRD, EFF, TEN-T, research, innovation, and LIFE+. The complementarity and coordination of ERDF and Cohesion Fund support with other EU policies is therefore of particular relevance. In addition, the objectives of the funding need to be mutually compatible with the main aspects of EU external policy, especially the actions undertaken in the close vicinity of the EU borders (Balkans, ENP countries, Russian

[54] Mario Monti. 'A New Strategy for the Single Market', Report to the President of the European Commission, 9 May 2010.

Federation). The issue of coordination with other EU policies and financial instruments is addressed further in the Impact Assessment of the Common Provisions Regulation.

4. POLICY OPTIONS

The options appraised have been shaped by dialogue with stakeholders and results of the ex-post evaluations. Options have been formulated for each of the three issues identified in the problem definition. The different options have been included in the Impact Assessment to address the problem of scope in accordance with the defined objectives, reflecting alternatives ranging from moderate adaptations of the current arrangements to more fundamental changes.

On 29 June 2011, the Commission adopted a proposal for the multi-annual financial framework for the period 2014-2020. The relevant elements of the proposal are as follows:

– SME competitiveness and innovation are priority areas for investment through cohesion policy.
– It is proposed that cohesion support for enterprises and projects expected to generate substantial financial returns be dealt with primarily through innovative financial instruments.
– The Cohesion Fund and the ERDF will continue to be available for funding investment in infrastructure. €10 billion will be ring-fenced to finance core transport networks under the Connecting Europe Facility.
– A Connecting Europe Facility will be created to fund pre-defined transport, energy and ICT priority infrastructure of EU interest. The total budget of the facility will be €40 billion.

4.1. Scope of aid to enterprises by the ERDF

The options presented below range from the status quo to a more incremental option as well as a more radical option.

4.1.1. 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.

4.1.2. 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 (which can include aid to both large and small firms) by supporting regional and local development and research and innovation. These measures include:
  - o fixed investment in equipment and small-scale infrastructure, support for and services to enterprises, in particular SMEs;

- o support for public research and innovation bodies and technology and applied research in enterprises;
- o networking, cooperation and exchange of experience between regions, towns, and relevant social, economic and environmental actors.

4.1.3. 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.

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

4.2.1. 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 Member States.
- In less developed regions the focus is on both priority projects of European interest as identified by the Union and within the new TEN-T framework (because of their cross-border nature, or the deployment of EU-wide systems), as well as on secondary infrastructure (including rail transport, supporting intermodality, strengthening public transport, roads etc.).
- More developed regions may use national funding for financing major infrastructure, if this is seen as major national priority. 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.

4.2.2. 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 Member States, while the ERDF targets projects of national and/or regional interest.
- As in option 1, major infrastructure investments are covered by national programmes.
- Ex ante conditionalities in the area of strategic planning as well as in enhancing administrative capacities 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 Connecting Europe Facility (CEF) covering energy, transport and broadband investments would complement cohesion policy investment in physical infrastructure, not only soft investments. The CEF would finance infrastructure projects with high EU added value in the areas of transport, energy and ICT € 10 billion would be ring-fenced inside the financial allocation for the Cohesion Fund for the Connecting Europe Facility in order to support investments in core TEN-T infrastructure.

4.2.3. Option 3 – Clear differentiation between the scope of the ERDF, Cohesion Fund and Connecting Europe Facility

- The Cohesion Fund finances infrastructure investments in the area of strategic European priorities in the area of core and comprehensive TEN-T, while the ERDF targets projects of national and/or regional interest.

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

- Ex ante conditionalities in the area of strategic planning as well as in enhancing administrative capacities will accompany the focus on strategic investments. Complementing the conditionalities on administrative capacity building, continuous financial support would be given to build up capacities to implement the projects to ensure absorption of funds.

- The dedicated Connecting Europe Facility (CEF) covering energy, transport and broadband investments would focus its investments in the more developed Member States ONLY. The CEF would finance infrastructure projects with high EU added value in the areas of transport, energy and ICT, such as cross border infrastructure.

- The Cohesion Fund would fund TEN-T projects in the less developed Member States; while the Connecting European Facility would do so in more developed Member States. There would be no transfer of €10 billion from the Cohesion Fund to the Connecting Europe facility.

4.3. Territorial Cooperation

4.3.1. 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 future Convergence/Competitiveness programmes.

4.3.2. 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 set out in the EU Strategic Framework and the Partnership Contract.

4.3.3. 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. They would include an opening to provide for cooperative action to be undertaken with one or more regions from other Member States in order to address issues of common concern.

5. ANALYSIS OF IMPACTS

The analysis of the impacts of the different delivery options for the ERDF and Cohesion Fund has been developed by assessing their contribution to increasing the efficiency and effectiveness and EU added value of funding. The economic, social and environmental impacts of the ERDF and Cohesion Fund investments are mainly addressed in the Impact Assessment of the Common Provisions Regulation, as this is where the issues of coordination with other EU policies and financial instruments as well as thematic concentration are dealt with, which impact on the distribution of funds between economic, environmental and social objectives.

Much of the analysis of the potential impacts of different delivery options is based on ex-post evaluation reflecting past experience with delivery systems.

5.1. Scope of enterprise support funded by the ERDF

5.1.1. Option 1 – No policy change

Overall the continuation of the status quo will result in significant positive effects in regions, but at the same time will also result in a continued loss in efficiency and effectiveness. The effectiveness of this general approach is demonstrated by the ex-post evaluations, which concluded that over the EU as a whole, the growth in terms of gross employment was least 1 million jobs in Convergence and Competitiveness regions as a direct result of enterprise support over the period 2000-2006. (Figures on net employment impacts are not available, but are smaller, due to the crowding out of private investment by public funding.)

The advantage of a broad scope is that a relatively broad scope of intervention allows Member States sufficient flexibility to choose the areas of intervention that most meet their challenges.

The main drawback of is that the broad scope results in continued funding of interventions which do not address real bottlenecks to growth or market failure. The ex-post evaluations have shown that in Convergence regions in the EU-15, well over half of the finance from the ERDF for aid to enterprises went towards assisting SMEs either directly through investment grants or indirectly through the provision of various services. Most of the rest went on support for RTDI (28% of the total). However, a smaller but significant amount (16% - though totalling €3.4 billion) went towards supporting investment in large enterprises. Examples of past support where public intervention is not necessary includes funding of large-scale private investments in tourism in areas where there is no underutilised potential.

In the area of productive investment funding is given to firms which do not actually need it, that they would have made the investment concerned even without financial help. The funding provided in such cases, therefore, is a waste of public resources, as it crowds out private investment instead of providing real added value. As the 2000-2006 ex-post evaluations concluded, this deadweight loss is most likely to occur in respect of support to large enterprises, which can be expected to have greater access to financing opportunities as well as to business expertise.

Under this option most support to enterprises would continue to be delivered in the form of non-repayable grants, which would result in a lower than optimal leverage of funding.

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

Under this option, support for productive investment to create and safeguard jobs would be limited to direct aid to investment in SMEs. Large companies could receive aid, linked to specific investments designed to support the development of endogenous potential of the region, notably in the fields of innovation, new technologies and research. Such an approach would also provide multiplier effects through the development of stronger long term innovation capacities and skills-based linkages, cooperation and joint initiatives between large firms, SMEs and other institutions. For many regions this can be a key element in finding the right responses to policy challenges.

The main advantage of limiting direct aid to investment in SMEs to support for productive investment to create and safeguard jobs is that it avoids crowding out, as well as 'deadweight' loss which is most likely to occur in respect of support to large enterprises, as was identified by the 2000-2006 ex-post evaluation.

There are strong arguments for reinforcing the focus on R&D and innovation, particularly in the context of Europe 2020. Overall during the 2000-2006 period, the ERDF made a perceptible contribution to R&D expenditure in Convergence regions, adding some 12% to national spending in Portugal, 7% in Greece and 6% in Spain, and even more in some of the EU-10 countries, especially Estonia (where total R&D was twice as large in relation to GDP in 2006 as in 2000). An increased focus on R&D and innovation could support progress towards the relevant headline targets.

Increased focus on innovation for key enabling technologies[55]

The economic downturn has affected investment in general and especially in technology-enabled sectors such as chemicals, automotive, construction and electronics. Lower industrial output and slower technology adoption reduces demand for basic technology providers. A key objective of public support for R&D and innovation in the EU Framework and Member State programmes should be to ensure that the flow of innovation is maintained and that technology adoption is facilitated. Publicly supported programmes should be reinforced to help key industries to maintain their long term innovation plans for enabling technologies and thus ensure their competitiveness in the subsequent economic upturn.

Furthermore, under this option there is scope to increase the role of non-grant based instruments especially in relation to investment support for both large enterprises and SMEs,

[55] Communication 'Preparing for our future: Developing a common strategy for key enabling technologies in the EU' COM(2009)512, 30.9.2009, p. 7.

as investment support is generally associated with lower risk and involves increased deadweight loss compared with investment in innovation and high risk activities. The Commission proposal for the MFF has also stated that 'it is proposed that cohesion support for enterprises and projects expected to generate substantial financial returns will be delivered primarily through innovative financial instruments.'[56] By end of 2009 of the € 8.2 billion allocated for SMEs[57] the bulk, (€ 6.7 billion) was in the form of non-repayable grants.

The main drawback of this approach is that certain stakeholders and Member States consider that such a restriction would limit their flexibility in addressing regional disparities and influencing firm investment decisions.

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

Under this option, greater effectiveness and efficiency is achieved by further restricting the scope of funding.

The main advantage of this option is that by prohibiting grant-based support to firms, deadweight loss and crowding out of private investment are reduced, thus increasing the efficiency of funding. This option would also be in line with the results of the ex-post evaluation, which found that there is a need to make more extensive use of loans, equity finance and other forms of financial engineering. Nonetheless, the ex-post evaluations also suggest that non-repayable support is more effective for innovative, R&D-intensive projects far from the market, while financial engineering is more appropriate when lack of private financing is due to financial market failure. The main factor is the risk involved in innovative activities, and particularly in R&D activities, which sometimes cannot be resolved by repayable support alone.

A move from non-refundable to refundable forms of support for firms could entail a rise in administrative costs for managing authorities. The experience from the current period shows that although indirect forms of support through innovative financing instruments can have greater leverage effects, these often involve more complicated procedures and knowledge-intensive efforts by managing authorities.

Finally, some stakeholders have signalled that support to large firms, in particular in relation to innovation is important, as large enterprises are active in some of the areas relevant to delivering the Europe 2020 Strategy. Stakeholders have also argued that local branches of large enterprises and SMEs are similar in their decision making processes, and that investment support to large enterprises is warranted as it has a spillover effect on local economies.

[56] A Budget for Europe 2020 – Part II: Policy Fiches [COM(2011) 500 final] p. 27.
[57] Categories of expenditure 03, 04, 06, 09, 14, 15, 68.

5.2. Scope of infrastructure support funded by the ERDF and Cohesion Fund

5.2.1. Option 1 – No policy change

Under this option, approximately half of the Cohesion Fund allocations, i.e. €34 billion would be allocated to infrastructure investments with additionally about €6 billion from the ERDF invested in more developed regions.

The main advantage of this option is that EU funding would be available for a broad range of infrastructure projects. The broad scope of this option as well as the flexibility given allows Member States to choose the areas of intervention that best meet their challenges. This was confirmed by Member State responses to the public consultation in relation to the Fifth Cohesion Report, where a number of Member States noted that investing in infrastructure is important for the development of less developed regions in order to improve regional connectivity to national growth centres and to increase regional accessibility. Therefore, this option would ensure a maximization of regional development benefits. The drawback of this option is that at the same time there would be continued financing for basic infrastructure in regions with already high infrastructure endowment. These investments would consume a substantial part of the allocations in these regions which would not address real bottlenecks to growth and continue to fragment (the relatively limited) ERDF interventions in these regions.

The option continues to ensure investments in TEN-T infrastructure and would to some degree address key European priorities. However, the experience from the current and previous programming period suggests that Member States are reluctant to give sufficiently high priority to multi-country cross-border investments and tend to focus on these bits of TEN-T infrastructure most relevant in a national context.

Due to a continuation of national operational programmes within which priorities would be defined, and a limited role for the Commission to influence these priorities, this option would not ensure a sufficient concentration on key European value added investments. As a result, funding could fall significantly short of the €30 billion needs for core TEN-T infrastructure investments until 2020. EU funding for key European infrastructure would continue to be fragmented and unfocused [58]

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

European added value:

As under option 1, under this option, half of the Cohesion Fund allocations would be available for investment in TEN-T. However, of this amount €10 billion would be ring-fenced inside the financial allocations of the Cohesion Fund for the Connecting Europe Facility. The remaining €24 billion would be focused with the help of ex-ante conditionalities on core TEN-T projects as well as on comprehensive TEN-T infrastructure which would be part of the

[58] The Report on TEN-T evaluation points to a number of shortcomings in the functioning of the programme. In particular, the Report notes that EU funding is fragmented between the TEN-T programme, the Cohesion and the Structural Funds and that greater coordination between the two would be beneficial for the future.

partnership agreement. Through the use of the partnership contract, this option would focus the financial resources needed to meet the demands for investment in the core TEN-T network in Cohesion countries, which are estimated at €30 billion.

The ex ante conditionalities would ensure realistic project pipelines with a prioritisation of investments according to European value added and sustainability. Furthermore, they would also systematically address bottlenecks in implementation capacities, particularly with weak beneficiaries such as many railway agencies in Cohesion countries.

The main advantages of the option are therefore that it concentrates funding as well as capacities towards high European value added projects without losing the necessary scope for maximising the benefits for regional growth and sustainability. It furthermore addresses concerns expressed by both stakeholders and the ex-post evaluations of infrastructure investment in cohesion policy. The ex-post evaluation makes the case for a holistic and coordinated approach to infrastructure funding, supporting both the development of EU priorities and the development of less attractive parts of the network.[59] This option would increase coordination between the different EU funding instruments.

At the same time this option would avoid too much centralisation and allow a significant role for shared management in infrastructure investment, which would be perceived as positive by stakeholders who are critical of a central fund. In the consultation, some stakeholders rejected the idea of a central fund as putting transparency and predictability at risk, while some Member States emphasised the need to focus on the development needs of cohesion regions. It would allow the targeting of the ERDF towards regional and local infrastructure investment.The main drawback of this option is the reduced flexibility for Member States and regions to invest in infrastructure of primarily national/regional interest. This option however provides for some scope for investing in regional connectivity to the core TEN-T network in order to support regional growth potential.

Improving the coordination of the different instruments of TEN-T financing:

This option offers a better focus on strategic investments by combining the CEF with a European focus and the Cohesion Fund which remains under shared management. The negotiations process for the strategic projects and the project pipelines would ensure complementarity in addressing European added value.

5.2.3. Option 3 – Clear differentiation between the scope of the ERDF, Cohesion Fund and Connecting Europe Facility

European added value:

As in option 2 about € 34 billion, i.e. half of the Cohesion Fund allocations would be available for investment in TEN-T. However, the investments are entirely spent on those TEN-T bids which reflect most national and regional interests. Two Member States explicitly rejected the idea that sectoral funds for infrastructure investment should be created, and that cohesion policy should contribute to the creation of these funds. Several other Member States

[59] ERDF Ex-Post evaluation Work Package 5a. p. xii.

supported the idea that cohesion policy has been successful in investing in infrastructure and should continue to do so[60].

The main advantage of this option is it allows Cohesion countries full flexibility to address regional and national priorities in less complex projects, such as the non core TEN-T network.

Like under option 2, EU financed transport investments would be primarily concentrated on the least developed regions with positive effects on the concentration of ERDF interventions on bottlenecks for growth in more developed regions. This option provides clear benefits for Convergence regions, many of which still have significant infrastructure investment needs.

The main drawback of this option is the insufficient concentration of the Cohesion Fund on core TEN-T projects in poorer MS. There would be no funding available from the Connecting Europe Facility for strategic projects in Cohesion countries. Therefore it is unlikely that funding would meet the investment needs of core TEN-T projects in Cohesion countries until 2020.

Improving the coordination of the different instruments of TEN-T financing:

This option ensures strict complementarity of funding instruments, because the CEF would focus on more and the Cohesion Fund on less developed Member States. Although addressing cross border infrastructure may be insufficient in Member States covered by the Cohesion Fund.

5.3. Territorial cooperation

5.3.1. Option 1 – No policy change

The advantage of this option is that it gives cooperation programmes greater flexibility in choosing the policy areas they would like to tackle. The drawback of this option is, however, that it tends to lead to programme objectives not being defined with sufficient clarity, an overall lack of strategic focus and no clear definition of expected programme outputs and results. Such an approach thus makes it difficult to properly monitor and capture programme achievements as well as ensure complementarity with other EU programmes including transnational activities.

Continuation of the status quo would also not help to reinforce the link between cooperation programmes and other regional programmes operating in the same area. As noted by the ongoing evaluations of the 2007-2013 period, ‘many good programmes do not always add up to good policy, good programme documents do not necessarily translate into good projects and good projects do not always ensure the success of a programme’. Coordination and coherence between different funding instruments is key.

[60] The Czech Republic and Hungary expressed this view in the consultation of the 5th cohesion report.

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

The advantage of this option is that it would more firmly align cooperation programmes with the Europe 2020 strategy and the thematic objectives derived from it. Concentration on a limited number of thematic objectives would also lead to an improved intervention logic within the programmes, from the setting of programme objectives to the definition of expected outputs and results and the means to monitor the outcomes and their contribution to European priorities.

The inclusion of cooperation priorities in the overall strategic framework and partnership contract would foster the development of a joint strategic vision for a region, also taking into account its linkages with neighbouring territories and broader geographical contexts. Furthermore, this option would be in line with the recommendations of the 2000-2006 ex-post evaluation, according to which cross-border and transnational programmes should establish more pro-active and ongoing inter-action with the Convergence and Regional Competitiveness and Employment programmes and other territorial co-operation programmes operating in their areas to ensure complementarity, co-ordination and synergies[61]. It would also cater for a suggestion from the European Parliament's report on territorial cooperation which recommended that 'regional operational programmes should have the option to take an interest and participate in the cross-border, transnational and interregional projects that concern them by defining a territorial approach to the allocation of funding'[62].

The disadvantage of such an option is that its gives less flexibility in programme design and sets limits to the 'bottom-up approach' frequently adopted, especially in the cross-border context. Furthermore, as many stakeholders have pointed out, very few ETC programmes have the financial resources to directly contribute to achieving the Europe 2020 targets. In this respect, most of the funding for Europe 2020 priorities will come from mainstream programmes. There has been some experience in the past in limiting the number of priorities in ETC programmes, but this has sometimes led to perverse behaviour with one-size-fits-all priorities being included in the programmes with complete lack of focus. Where territorial cooperation can provide a significant contribution, is through 'joint governance' and 'regional integration'[63].

A final drawback of this option is that explicitly including territorial cooperation in the Common Strategic Framework and Partnership Contract could entail additional administrative burden for both the Managing Authorities and the Commission, as it would involve the appropriate follow-up to ensure that these priorities are properly reflected in each ETC programme.

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[61] Ex-post evaluation INTERREG 2000-2006. Furthermore, the experience with URBACT I and II in the 2000-2006 period and the RFEC Fast Track Networks in the current period confirms the need for a closer cooperation and more coherence between ETC programmes and mainstream programmes, but also clearly shows the need to include cities in all stages of the programming (especially also in the design) so that the local needs are effectively met and cities take a more strategic approach in their co-operation activities.

[62] European Parliament Report 'Objective 3: a challenge for territorial cooperation – the future agenda for cross-border, transnational and interregional cooperation', Committee on Regional Development, 11.4.2011.

[63] INTERACT Discussion Paper on the European Territorial Cooperation Objective linked to the Consultation on the Conclusions of the 5th Report on Economic, Social and Territorial Cohesion: the Future of Cohesion Policy (COM(2010) 642 final).

Most ETC stakeholders agree that territorial cooperation programmes should focus on limited priority areas important for the participating regions/countries; areas where cooperation would present the highest added value potential. They stress the need to ensure the strategic focus of the programmes and that better links with the Convergence and Competitiveness objectives are needed[64]. In this respect, stakeholders point to the territorial cooperation programmes as the testing ground for cooperation activities which can then be implemented in the framework of mainstream programmes.

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

The advantage of this option is that it would make cooperation part of the overall development strategy of a given region. This would lead to increased synergies and benefit the regional programme by adding an EU dimension to it. Indeed, some stakeholders argue that mainstream operational programme could 'pinpoint priorities which could benefit from cooperation with other countries and seek to address them through ETC programmes'[65].

This could also address some of the points arising from the ex-post evaluation, which recommended that 'more intense and durable cross-border, transnational and inter-regional co-operation processes should be established if future territorial co-operation is expected to achieve more concrete and tangible socio-economic development effects[66]'.

The main drawback of this option is that 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. In addition, there is a risk that the international dimension would be neglected in programming, given that there could be a natural tendency to concentrate primarily on 'internal' challenges. Joint projects would be more difficult to undertake without a support structure for developing and implementing them (diverging eligibility rules under different programmes, different application and selection procedures and timelines etc.), even if for some policies, this type of structure already exists[67]. Finally, this option would make it difficult to address many stakeholders' concerns that European Territorial Cooperation should be subject to a separate regulation to reflect the inherently international character of its activities[68].

6. Comparing the Options

The assessment of options uses a qualitative methodology. Quantitative assessment of the policy options is not possible due to the complexity of the delivery system, the difficulty of assessing initial starting points because of circumstances in different Member States, and the general nature of the options themselves. Thus, the options are assessed using the criteria relevant to each issue.

[64] 'ETC beyond 2013', INTERACT Position Paper, July 2010.
[65] 'ETC beyond 2013', INTERACT Position Paper, July 2010, p. 4
[66] Ex-post evaluation INTERREG 2000-2006.
[67] It is in particular the case in the education area, in which national agencies already exist in all MS, as the delivery mechanism in charge of the management of the Education Europe programme.
[68] European Parliament Report 'Objective 3: a challenge for territorial cooperation – the future agenda for cross-border, transnational and interregional cooperation', Committee on Regional Development, 11.4.2011.

The more restricted the scope of intervention, the more likely it is that investments would concentrate on the real bottlenecks to growth and that it will not crowd out private investment. Similarly, the more restricted the scope of intervention, the more likely it is that there would be funding gaps (i.e. that real funding needs will not be met) as well as restrictions on the flexibility available to Member States and regions to determine funding according to their own specific needs.

6.1. Scope of aid to enterprises supported by the ERDF

	Option 1 - No policy change	**Option 2 – More targeted support to large enterprises focusing on R&D, innovation and key enabling technologies**	**Option 3 – No grants to large firms; only loans and equity finance for SMEs**
Contribution to sustainable growth and employment (investment support)	0	++	++
Contribution to developing local and regional potential (RDI)	0	++	+
Leverage of funding	0	++	+

Under the no policy change option, a relatively broad scope of intervention allows Member States sufficient flexibility to choose the areas of intervention that best meet their challenges, with most of the support going to SMEs and RTDI. However, this can lead to the crowding out of private investment by public funding where firms would have made the investment concerned even without financial help. This deadweight loss is most likely to occur in respect of investment support to large enterprises.

Under Option 2, more targeted support to large enterprises focusing on R&D, innovation and key enabling technologies leads to decreased crowding out and deadweight loss as support for productive investment would be limited to direct aid to investment in SMEs. Support for large firms active in certain sectors such as research and innovation would contribute to the development of endogenous potential of the region. There would be greater focus on repayable support to productive investment, and non-repayable support to RTDI results in increased efficiency of spending. The leverage of funding would therefore be increased.

Under Option 3, a shift in productive investment from (non-refundable) grants to (refundable) loans and equity finance would further enhance the effectiveness and efficiency of funding, by reducing deadweight. Prohibiting grant-based support to large firms increases the efficiency of funding and leads to 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. This could result in a negative impact with lower demand for RDI support. A move from non-refundable to refundable forms of aid to large enterprises could also entail 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 (More targeted aid to large enterprises) is the preferred option.

6.2. Scope of infrastructure support funded by the ERDF and Cohesion Fund

Under the no policy change scenario, the benefits which EU funding for infrastructure has produced would continue, e.g. new possibilities for trans-European rail transport. The relatively broad scope of intervention allows Member States sufficient flexibility to choose the areas of intervention that best meet their challenges. Nevertheless, Member States would continue to be reluctant to give sufficiently high priority to multi-country cross-border investments. Without coordination between cohesion policy and the CEF, EU funding for infrastructure would continued to be fragmented.

Under Option 2, with an enhanced focus on European priorities in major infrastructure investments in less developed regions and ringfencing €10 billion from the Cohesion Fund for the CEF as well as additional funding in the CEF would enable concentration on EU priority projects. This option generates the strongest European network effect. The Cohesion Fund would also be available for investment in TEN-T and for regional and local infrastructure in order to enhance regional growth perspectives, though less than under the status quo and option 3. Among stakeholders, there is strong support for the idea of an integrated financial framework, guiding investments in TEN-T across the different funding instruments‘.

Option 3 would allow for the focus on infrastructure investments to remain in Convergence regions, where basic infrastructure needs are the greatest. Nevertheless, under this option, less developed regions are unlikely to develop sufficient key strategic infrastructure with the Cohesion, particularly cross-border connectors, necessary to ensure European network benefits.

	Option 1 - No policy change	Option 2 - Enhanced focus on European priorities in major infrastructure investments in less developed regions and Connecting Europe facility in more developed regions	Option 3 - Clear differentiation between the scope of the ERDF, Cohesion Fund and Connecting Europe Facility
Concentration on European priorities	0	++	+
Improving the coordination of the different instruments of TEN-T finance	0	++	0

On the basis of its contribution to European networks and better coordination with EU funding instruments Option 2 (Enhanced focus on European priorities in major infrastructure investments in less developed regions and Connecting Europe Facility in more developed regions) is the preferred option.

6.3. Territorial cooperation

Under the no policy change option, European Territorial Cooperation programmes have greater flexibility in choosing the preferred policy areas to be addressed. However, this option leads to programme objectives not being defined with sufficient clarity, an overall lack of strategic focus and no clear definition of expected programme outputs and results. Furthermore, this option makes it difficult to ensure complementarity with other EU programmes including transnational activities due to lack of clarity and focus.

Option 2, thematic concentration and strengthened link to other programmes, would more firmly align cooperation programmes with the Europe 2020 strategy and the thematic objectives derived from it. It would lead to an improved intervention logic within the programmes through the setting of programme objectives to the definition of expected outputs and results and the means to monitor the outcomes and their contribution to European priorities. Furthermore, there would be more pro-active and ongoing inter-action with the Convergence and Competitiveness programmes and other territorial co-operation programmes operating in their areas to ensure complementarity, co-ordination and synergies. Nevertheless, this option could lead to less flexibility in programme design and sets limits to the ‘bottom-up approach’ frequently adopted, especially in the cross-border context.

Option 3, integration of cooperation in the regional programmes, would make cooperation part of the overall development strategy of a given region leading to increased synergies and benefits for the regional programme by adding an EU dimension. Nevertheless, it would only allow for cooperation on specific projects, and would 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, given that there could be a natural tendency to concentrate primarily on ‘internal’ challenges. Joint projects would be more difficult to undertake without support structure for the developing and implementing them (diverging eligibility rules under different programmes, different application and selection procedures and timelines, etc.). This option would make it difficult to address many stakeholders’ concerns that European Territorial Cooperation should be subject to a separate regulation to reflect the inherently international character of its activities.

	Option 1 - No policy change	**Option 2 - Thematic concentration and strengthened link to other programmes**	**Option 3 - Integration of cooperation in the regional programmes**
Focus on European priorities	0	++	++
Clear programme intervention logic	0	++	+
Flexibility for MS and regions to choose thematic objectives	0	-	-
Synergies with ‘mainstream’ programmes	0	+	++
Added value (fostering joint approach)	0	0	-

On the basis of better focus on European priorities, developing a clear programme intervention logic and greater added value, Option 2 (Thematic concentration and strengthened links to other programmes) is the preferred option.

7. MONITORING AND EVALUATION

As outlined in the Impact Assessment for the Common Provisions Regulation, the monitoring and evaluation systems for cohesion policy will be reinforced in order to improve the focus on results and alignment with the Europe 2020 strategy. The proposed adjustments would — as called for by the budget review — provide for the definition of specific, measurable, achievable objectives. Such an approach would provide detailed information on progress towards the general, specific and operational objectives set out above.

Evaluations of past and current programmes show that while ERDF and Cohesion Policy interventions have a significant impact on the ground, this is sometimes difficult to capture and communicate. A lack of explicit focus on the results to be achieved can lead to dispersion of resources and a sub-optimal impact of the Funds. A clearer expression of intended results, linked to specific objectives, would help to ensure that all supported projects contribute to the results of the programmes and, ultimately to the Union priorities of smart, sustainable and inclusive growth.

For the ERDF, Cohesion Fund and Territorial Cooperation, this implies in the first instance that the intervention logic for the programmes has to be strengthened, demonstrating the links from the regional to the EU level. In concrete terms, this would mean the following:

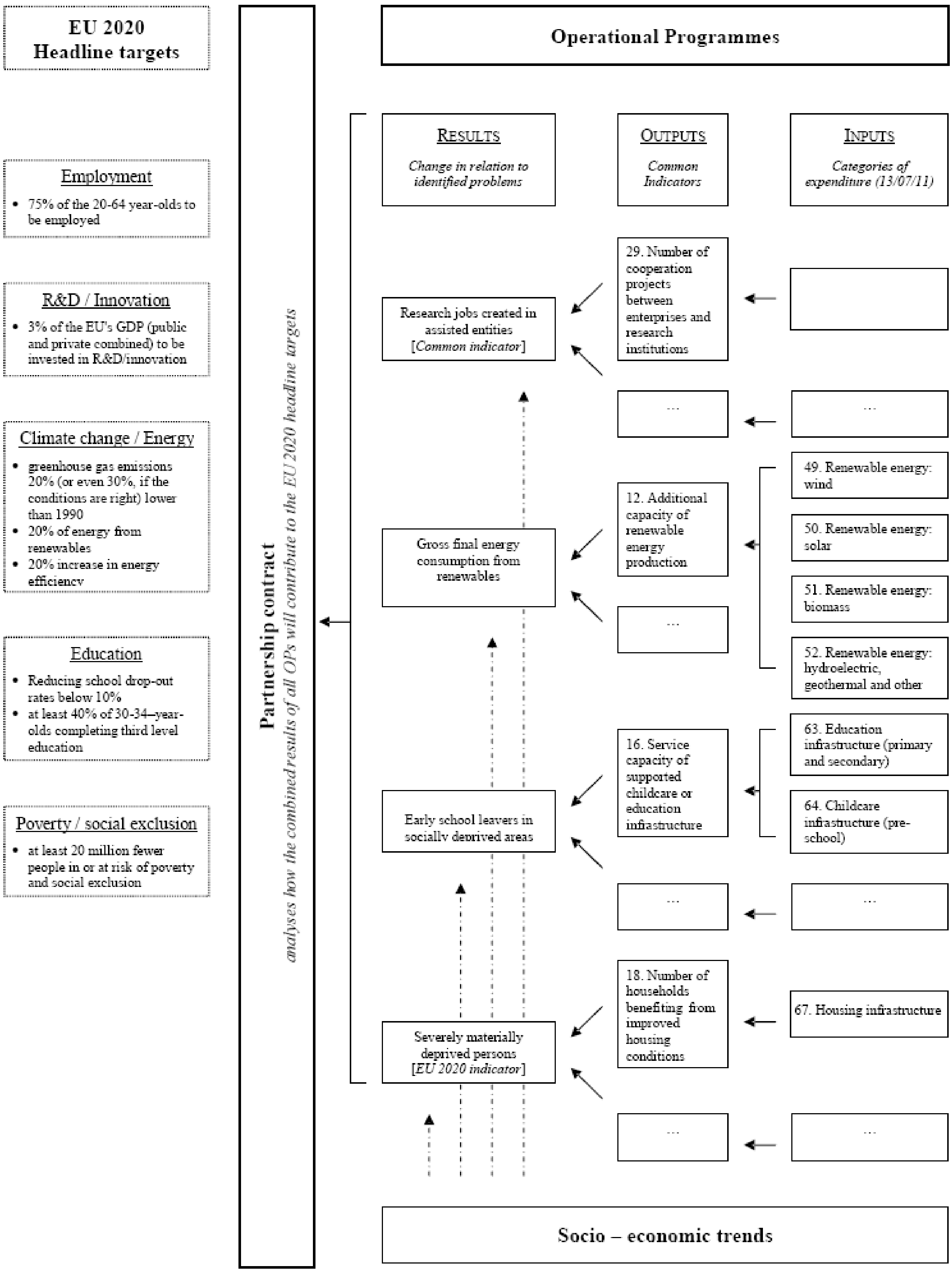
- Programmes would set out clearly the changes sought, how this would contribute to the Europe 2020 targets, and how spending the resources on particular interventions (outputs) will contribute to change (results). This will be expressed in result indicators, linked to the specific objectives of the programme, and output indicators, which reflect the products of interventions supported. A set of common indicators, aligned with EU2020 objectives, will be used where relevant allowing analysis of progress made at the EU level. These indicators will include mainly outputs, but also some intermediate results.
- Each programme would include a performance framework fixing quantified milestones for each priority axis. These milestones would be established on the basis of a limited number of programme indicators. These could be input indicators (amount of money committed to key TENs interconnectors), output indicators (number of cooperation projects between enterprises and research institutions) or results (number of new employer enterprises started). In all cases, the purpose of the milestones would be to provide a clear indication of progress towards delivery of investment priorities linked to Europe 2020. This framework would provide policymakers and programme managers with robust information on delivery.
- These milestones for the performance framework would be proposed by the Member State and agreed between the Commission and the Member States when the operational programmes are negotiated.
- The Partnership Contract would contain a summary of the milestones established for the performance framework under the operational programmes, together with the methodology and the key principles applied to ensure consistency across operational programmes.

The performance of operational programmes would be monitored regularly on the basis of the set of programme indicators. Annual Implementation Reports would contain information 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 the information provided by Member States in the Annual Implementation Reports of the preceding year. This review would be carried out in relation to the first set of milestones consisting of indicators which demonstrate the progress made in preparatory activities (e.g. the amounts allocated to operations indicate progress made in project selection) or absorption (e.g. payments made to/by beneficiaries), and in some cases first outputs. the aim here is to examine whether the implementation of the programme overall is moving in the right direction. It is an opportunity for the Commission to give an early warning if the milestones are not met, and to carry out close monitoring in subsequent years if necessary.

The Commission would then undertake the second review of progress towards the next set of milestones in 2019 on the basis of the information provided by Member States in the 2018 Annual Implementation Reports. This review would focus on the actual outputs and, where appropriate, results achieved and their contribution to the Europe 2020 targets and objectives.

The following graphic outlines how the common indicators could fit in with the EU2020 targets and objectives in a hypothetical region. In reality, regions will have specific needs and they will define specific objectives and indicators – which may be the common indicators but may require programme-specific result indicators – which will demonstrate intermediate steps towards the EU2020 targets.



EU 2020 Headline targets
Employment
75% of the 20-64 year-olds to be employed
R&D / Innovation
3% of the EU's GDP (public and private combined) to be invested in R&D/innovation
Climate change / Energy
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
Education
Reducing school drop-out rates below 10%
at least 40% of 30-34–year-olds completing third level education
Poverty / social exclusion
at least 20 million fewer people in or at risk of poverty and social exclusion
Partnership contract
analyses how the combined results of all OPs will contribute to the EU 2020 headline targets
Operational Programmes
RESULTS
Change in relation to identified problems
OUTPUTS
Common Indicators
INPUTS
Categories of expenditure (13/07/11)
Research jobs created in assisted entities [Common indicator]
29. Number of cooperation projects between enterprises and research institutions
…
…
Gross final energy consumption from renewables
12. Additional capacity of renewable energy production
…
49. Renewable energy: wind
50. Renewable energy: solar
51. Renewable energy: biomass
52. Renewable energy: hydroelectric, geothermal and other
Early school leavers in socially deprived areas
16. Service capacity of supported childcare or education infrastructure
63. Education infrastructure (primary and secondary)
64. Childcare infrastructure (pre-school)
…
…
Severely materially deprived persons [EU 2020 indicator]
18. Number of households benefiting from improved housing conditions
67. Housing infrastructure
…
…
Socio – economic trends

The intervention logic in this hypothetical region is as follows:

1. Intended Change: Increase of research activities to foster innovation

- Result Indicator: Research jobs created in assisted entities (Common indicator)
- Output indicator: Number of cooperation projects between enterprises and research institutions (Common indicator)
- Description of measure: Financial assistance to research projects. Projects carried out in cooperation between enterprises and research institutions are eligible.
- Intervention logic: the region has relatively high research infrastructure but the business R&D activity is still low. Supporting joint projects will enable enterprises to have access to the mainly public research facilities in the region while promoting applied research in the research institutions.

2. Intended Change: Increase the role of renewable energy

- Result Indicator: Gross final energy consumption from renewable energy sources
- Output indicator: Additional capacity of renewable energy production (Common indicator)
- Description of measure: Financial assistance to renewable energy production facilities. Only non-ETS (European Trading Scheme) sectors are eligible.
- Intervention logic: The measure supports the general shift to renewable energy sources by investing in adequate production capacity. The measure is part of a general policy where carbon based energy production will be discontinued as the renewable energy production capacity is installed so the use of additional capacity is ensured.

3. Intended Change: Increase the education level of population in socially deprived areas

- Result Indicator: Early school leavers in socially deprived areas
- Output indicator: Service capacity of supported childcare or education infrastructure (Common indicator)
- Description of measure: Developing education and childcare facilities in areas identified as socially deprived.
- Intervention logic: Renovating and, if necessary, enlarging education facilities will solve the problems originating from overcrowded schools. The infrastructure development will make various new extracurricular activities possible in schools. New facilities will be developed to decrease distance and travel time to schools.

4. Intended Change: Improve the living conditions of the poor

- Result Indicator: Severely materially deprived persons (EU 2020 indicator)
- Output indicator: Number of households benefiting from improved housing conditions (Common indicator)
- Description of measure: The measure is a part of an integral programme to improve the living conditions of severely materially deprived persons, focusing on developing social housing.

- Intervention logic: Severely materially deprived persons live in conditions that prevent them from getting out of their current social conditions. Housing created by this measure will give them an opportunity to live in healthier environment suitable for raising families or living with certain disabilities.

A Strengthened Role for Evaluation

The role of evaluation will be strengthened. With a stronger monitoring framework, described above, with a clear focus on results, the role of evaluation becomes much more clearly focused on providing evidence on effects. In the past, too many evaluations have focused on implementation bottlenecks rather than the effects of interventions. Building on the work undertaken in the ex post evaluation of the 2000-2006 programmes and the ongoing 2007-2013 period the quality of evaluations will be enhanced through the use of more rigorous methods, both qualitative and quantitative. The Commission will provide advice and guidance and support exchanges of good practice between Member State and regional authorities, evaluators and academic experts.

For the ERDF, Cohesion Fund and European Territorial Co-operation, this would mean the following:

- Ex ante evaluation will be obligatory for all programmes and its role will be to test and improve the intervention logic of programmes and the appropriateness of the indicators and targets set.
- Each Operational Programme will have a multi-annual evaluation plan, which will be reviewed and adapted over time. Evaluations will be discussed and debated by Monitoring Committees and the follow-up to evaluation recommendations will be strengthened. All evaluations will be made public in order to enhance transparency.
- A new requirement will be proposed whereby the effects and impact of each priority axis should be evaluated at least once during the programming period. And a synthesis report should draw together the results of all evaluations and other evidence in the final year of the programme. This will facilitate the Commission's ex post evaluation, which will examine the impact of the funds on economic, social and territorial cohesion and their contribution to smart, sustainable and inclusive growth.

The Commission will support this work through the following initiatives:

- Guidance on monitoring and evaluation, both Commission guidance and expert guidance through the Evalsed website.
- Support for the use of counterfactual impact evaluation techniques, particularly for enterprise support measures and possibly area based initiatives. This will build on the Commission's 2010 innovative evaluation on enterprise support in East Germany and the ongoing evaluations of enterprise and innovation support in Italy and in selected other countries which will be presented at a Polish Presidency Conference in December 2011. In addition, the Commission's summer school on counterfactual impact evaluation (May 2011) for those in managing authorities tendering for and managing such evaluations will be continued on a bi-annual basis.
- Support for the use of ex post cost benefit analysis and more evaluation of unit costs for evaluating the effects and effectiveness of infrastructure investments. This builds on the recently completed ex post cost benefit analyses of selected transport and environmental projects carried out for the Commission and a forthcoming analysis of the longer term effects of infrastructure investments.

- Development of guidance and support for more rigorous qualitative evaluations, to capture in particular the effects of innovation support measures as well as local and EU based and cross-border initiatives. Such methods include network analysis, performance story reporting, focus groups, etc., all organised under the umbrella of theory based evaluation.
- Publication of Member States' evaluations on the Evalsed website, along with identification of best practice evaluations. The Commission is currently putting in place a peer review process whereby evaluation experts will identify some of the best quality evaluations being produced in Member States.
- Conferences on evaluation – following on from the Warsaw conference on evaluation methods in 2009 a major international conference will be organised in 2013 which will drive forward the message that more rigorous methods are required in evaluation if we are to ensure that the results oriented policy really delivers evidence based policy making and implementation.