European Regional Development Fund, European Social Fund and Cohesion Fund: simplification of certain requirements; financial management

2009/0107(COD) - 22/07/2009 - Legislative proposal

PURPOSE: to simplify the management of European Structural Funds in order to help regions counter the effects of the crisis.

PROPOSED ACT: Council Regulation.

BACKGROUND: in the context of the current crisis, ensuring a smooth implementation of Cohesion programmes is of particular relevance as they represent the most powerful and relevant lever for assisting the real economy. With total financial resources of EUR 347 billion for the period 20072013, Cohesion policy provides a powerful support for both budgetary stability and public investment in the Member States and the regions of the European Union. Experience shows that **more effort is needed to facilitate the management of the Community funding** in order to speed up the flow of the funding to the beneficiaries that are most affected by the economic downturn.

The December 2008 European Council agreed on a European Economic Recovery Plan (EERP), which envisages the initiation of priority action to enable European economies to adjust more rapidly to current challenges. Moreover, the Commission has endeavoured to contribute to the debate currently taking place within the Union and with its international partners on how best to react to the current financial crisis and to its socio-economic consequences. In particular, in the framework of its recovery package, the Commission proposed a number of regulatory changes to simplify the implementation rules for Cohesion Policy and to increase the pre-financing (advance payments) to ERDF and ESF programmes. The additional advance payments have provided an immediate cash injection of EUR 6.25 billion in 2009 to pre-finance investment, within the financial envelope agreed for each Member State for the period 20072013. This amendment brings the total of advance payments in 2009 to EUR 11.25 billion. The Commission proposal was adopted by the Council in May 2009 and all advance payments now have been paid to Member States.

Moreover, in June 2009 the Commission presented a Communication on "A Shared Commitment for Employment" (COM(2009)0257) in which it proposed additional measures to strengthen the creation of jobs and to counter the effects of the crisis on employment.

Therefore, this proposal includes **further elements of simplification**, with the overall objective of accelerating co-financed investments in Member States and regions and increasing the impact of the funding on the economy as a whole.

IMPACT ASSESSMENT: this proposal completes a series of regulatory and nonregulatory adjustments which all seek to stimulate the implementation of cohesion programmes on the ground. The proposal to provide Member States in the case of operational programmes co-financed by the ESF an option to reimburse interim payment claims at 100% for a limited period (up to the end of 2010) will ensure that all certified expenditure of 2009 and 2010 can be paid back without creating a gap in national budgets.

Further simplification and clarification of rules governing cohesion policy will undeniably have a positive impact on the pace of programme implementation, particularly by providing national, regional and local authorities clearer and less bureaucratic rules that will allow more flexibility to adapt the programmes to the new challenges.

CONTENT: the new measures presented by the Commission aim to simplify certain rules governing cohesion policy. The main changes are as follows:

- in 2009 and 2010, as part of its 'anti-crisis' measures, **the Commission may at the request of the Member States reimburse 100% of the public costs declared by the Member States for projects financed by the ESF**. Specifically, Member States will not be obliged to provide national cofinancing, thus speeding up the implementation of projects to support employment. This option does not call into question the distribution of the Funds between the Member States, nor the total budget for the Funds, nor the obligation for Member States to provide subsequent cofinancing;
- the Commission proposes establishing a **single category of 'major project'**. Previously, the Commission's approval was required for projects where the total cost exceeded EUR 25 million for the environment and EUR 50 million for other sectors. The **threshold for approval is now set at EUR 50 million for all areas**. Given the Community importance of the investments in environment as such, the Commission will ask Member States: (i) to ensure an appropriate monitoring of all the investments, including those below the threshold provided in the Regulation; and (ii) to inform the Commission about the implementation progress in the annual reports on operational programmes. Another modification consists of creating the possibility that a single major project is co-financed by more than one programme. This is of particular relevance for projects of nation-wide scope or Community importance, which straddle several regions, and which in the absence of this possibility would have to be artificially separated in multiple projects;
- the rules relating to **'revenue-generating' projects** (for example, toll motorways or projects involving the leasing or sale of land) are also simplified in order to reduce the administrative burdens on the Member States. The proposed modifications intend to simplify the monitoring of revenues and to align this with the overall life-cycle of programmes. Therefore, the duration of the provisions on monitoring revenue is now limited to the date of submission of the closure documents of a programme;
- Cohesion Policy programmes may be **simplified by Member States to take account of the new realities**. In addition, certain provisions concerning the obligation to maintain investments over a five-year period will not apply to undertakings which go bankrupt;
- a proposed modification intends to clarify that in the context of **advance payments on State aids** admissible guarantees include guarantees by banks or other financial institutions, but also a facility provided for this purpose by public institutions and the Member States themselves;
- investments in sectors linked to **energy efficiency** and the use of **renewable energies in housing** will be encouraged, given their considerable potential to provide growth and jobs;
- the Commission proposes a modification aimed at increasing flexibility with regard to the **rules on decommitment** . For example, grants for a major project will in principle be protected as soon as the Member State submits the project to the Commission. Grants are currently only protected once the Commission has approved the project;
- the European Regional Development Fund (ERDF) will be able to support the renovation or construction of **housing for communities faced with social exclusion**, particularly Roma, in both rural and urban areas. Previously, the construction of housing was ineligible under the ERDF and only housing in urban areas was eligible for renovation.

BUDGETARY IMPLICATIONS: there is no impact on commitment appropriations since no modification is proposed to the maximum amounts of ESF financing provided for in the Operational Programmes for the programming period 20072013.

Where Member States decide to make use of the option to request 100% reimbursements during 2009 and 2010 there will be an impact on payment appropriations. The analysis of the Member States' payment forecasts and the payment appropriations available in the budget for 2009 and the Draft Budget for 2010 show that the maximum additional payment appropriations to be paid under the 100% reimbursement option in 2009 and 2010 for the ESF programmes would represent approximately EUR 6.6 billion. This will be compensated by a reduced need for payment appropriations later in the programming period.

The Commission will set up a monitoring tool to supervise closely the consumption of the additional credits for the European Social Fund. For the payment claims submitted as of 1 January 2011, the regular cofinancing rate agreed in the programme decision will apply. The Commission believes that the proposed measures to simplify the implementation may significantly increase the pace of expenditure on the ground and consequently accelerate the submission of interim payments to the Commission.