

EU Financial Regulation

Analysis of the simplification measures mentioned in both the proposal for a EU Financial Regulation and the cohesion policy legislative package.

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Executive summary

On 22 December 2010, the European Commission adopted a proposal for a Regulation of the European Parliament and of the Council of the European Union on financial rules applicable to the annual budget of the Union (COM (2010) 815 final), also known as the EU Financial Regulation. This legislative proposal will have a major impact on local and regional authorities through the simplification measures it includes, particularly regarding the use of EU Structural Funds. Furthermore, on 6 October 2011, the European Commission adopted the legislative package for cohesion policy for 2014-2020, which contains a set of additional simplification measures. This file note seeks to assess whether the Commission's proposed measures match the needs expressed by Local and Regional Authorities (LRAs) and whether they will contribute to more efficient and effective spending.

The first part of this file note describes the state of play of inter-institutional negotiations on the EU Financial Regulation, provides a summary of the main simplification measures, and compares the measures proposed in the Financial Regulation to those proposed in the cohesion policy legislative package. The analysis of the inter-institutional negotiations on COM (2010) 815 final shows that the changes negotiated between the European Parliament and the Council of the European Union are broadly supportive of the position expressed by the Committee of the Regions (CoR). The overview of the simplification measures draws attention to the fact that some 'simplification measures' do not necessarily facilitate the use of EU Funds by beneficiaries. Overall, the comparison between the measures proposed by the Commission indicates that, generally, both proposals are coherent with each other, although the level of detail can vary depending on the specific topic.

The second part of this file note examines the degree to which the simplification measures respond to the needs expressed by LRAs, evaluates their impact on the use of EU Funds, and points out a number of measures that will require changes exclusively for LRAs and national governments. Some simplification measures seem to go in the right direction and aim to, for instance, reduce the administrative burden on both beneficiaries and managing authorities, which has been called for repeatedly by LRAs and the CoR. However, the overall impact of the proposed measures might not be clear-cut with regard to simultaneously achieving both objectives, i.e. a simplified use of Funds by LRAs and more efficient and effective spending. Last but not least, it might take time to see the positive effects of simplification.

Introduction

“The Committee of the Regions regrets that because of the complexity of the funding mechanisms, European projects are driven more and more by compliance with administrative procedures rather than development strategy”ⁱ.

For a long time, the Committee of the Regions (CoR) has called for simplified rules regulating the use of EU funds so that Local and Regional Authorities (LRAs) can make better use of the funds and improve the effective implementation of projects. Not only has this request been constantly supported by LRAs in conferences or through their participation in public consultations, but also by other stakeholders, such as the European Parliament (EP). Indeed, the EP has regularly stated that simplification of policy implementation has to continue and be accompanied by the simplification of national and regional procedures, and that the correct balance between procedural simplicity and efficiency and good financial management needs to be foundⁱⁱ. In the context of the economic crisis and scarce financial resources, this objective has become even more important to make sure that the delivery mechanisms of the budget operate in the most efficient way and facilitate the implementation of EU policies.

In this context, on 22 December 2010, the European Commission adopted a proposal for a Regulation of the European Parliament and of the Council of the European Union on the financial rules applicable to the annual budget of the Union (COM(2010) 815 final) – the ‘EU Financial Regulation (FR)’, which introduces new simplification measures. The FR is of a horizontal nature. It contains all of the principles and rules which govern the EU budget and is subject to revision at least every three years in order to adapt budget delivery mechanisms to the economic context and current political challenges. It is also worth mentioning that, in February 2012, the Commission is planning to release a ‘Communication on simplification in the post 2013 legislative framework’, summarising the main simplification measures from the general proposals on the MFF and the sectoral legal bases aimed at reducing the administrative burden and facilitating access to funding. Simplification will be described as a priority during both the legislative process and the implementation of programmes.

Before the Commission adopted the proposal in December 2010, and in the context of the triennial revision, the FR was already revised in May 2010 (COM(2010) 260 final), following a public consultation. This revision aimed mostly at increasing the efficiency of the EU budget, adjusting the financial rules with the new requirements of budget implementation (co-financing with

other donors, specific financial instruments, Public Private Partnerships (PPP)) and reducing the disproportionate workload created by basic rules, such as interests in pre-financing. The proposal of December 2010 does not add any change of substance but brings the triennial revision of the FR as well as the revision of the FR to align it with the Lisbon Treaty (COM(2010) 71 final) in a single text.

It should, however, not be forgotten that the revision of the FR occurs while the EU also discusses the next Multiannual Financial Framework (MFF) and the rules governing the post-2013 programmes. In practical terms, this means that the simplification measures brought forward by the EU FR will have to be combined with the new legislation regarding EU funds, notably with the cohesion policy legislative package published by the Commission on 6 October 2011. All in all, it will have major implications on the management of EU funds by LRAs and may either simplify or complicate the compliance of regional programmes with EU rules.

This note, produced by the European Policy Centre (EPC) as part of its Framework Contract with the CoR, assesses the impact of the simplification measures proposed by the European Commission on LRAs on the basis of the following elements:

1. the measures introduced in the EU FR;
2. the measures introduced in the cohesion policy legislative package; and
3. the needs expressed by the LRAs and the CoR with regard to simplification measures.

The analysis developed in this note takes into account two dimensions of simplification: on one hand, it takes a legal approach and looks at and compares the innovations introduced in both Commission proposals; on the other hand, the paper takes a more political approach and analyses whether the measures will contribute to meet one of the key guiding principles of the EU budget, namely achieving better efficiency and effectiveness.

PART 1: General overview

1.1 State of play of inter-institutional negotiations on the EU Financial Regulation

Before assessing the impact of the simplification measures in the two Commission proposals, it is important to first describe the broad political context, in particular the state of play of inter-institutional negotiations on the EU FR.

The Commission's proposal for a EU FR is based on the ordinary legislative procedure, since the entry into force of the Lisbon Treaty. According to this procedure, the proposal was submitted to both the European Council and the EP.

The European Council received the proposal on 6 January 2011, and the Budget Committee examined the proposal at several meetings from February until April 2011. The public documents of the Council mention that a large number of delegations have expressed reservation of the fact that the proposal is 'closely linked with upcoming Commission proposals including financial aspects, such as the one concerning the delegated Regulation on detailed rules for its application, as well as those concerning sector-specific rules related to various expenditure areas'ⁱⁱⁱ. In addition the documents indicate that some delegations have expressed reservations on specific articles, notably Article 56 on the shared management (implementation of the budget) with Member States, Articles 130 and 131 on Financial Instruments, Article 178 on EU Trust Funds for external actions and Article 195 related to building projects. However, it is worth noting that the details of the positions of the Council are vague and that there is no information on the specific areas of controversy between delegations.

On 26 September 2011, the proposal was also subjected to the vote of the European Parliament's Committee on Budgets and Committee on Budgetary Control. On 26 October 2011, the Parliament voted 281 amendments. These amendments also take into account the position of the Council, which has held bilateral negotiations with the EP in order to achieve an agreement in first reading. Some of the EP's main changes related to the simplification measures or measures that will have a direct impact on LRAs, as summarised below:

- According to the EP, the obligation to generate **interest on pre-financing** and to recover such interest should be lifted immediately. The EP's stance goes much further than the Commission's proposal which stated that 'there should no longer be an obligation to generate

interest on pre-financing^{iv}. Given the common position of the Council and the EP, interest on pre-financing is therefore likely to disappear.

- In order to better assess the **risk of error**^v and to react accordingly, the EP calls for a management tool showing the risk of error. Initially, the Commission proposed that ‘Concerning provisions on proportionality, the notion of tolerable risk of error should be introduced as part of the risk assessment made by the Authorising Officer. The institutions should be able to move away from the general 2% materiality threshold used by the Court of Auditors (...). The European Parliament and the Council should therefore determine the level of tolerable risk of error per policy area, taking into account the costs and benefits of controls’^{vi}. By proposing such a management tool, the EP gets closer to the request of the CoR^{vii} asking for a specific early warning scheme.
- The EP considers that the **transparency of the financial rules** regarding the establishment and implementation of the general budget should be increased. Furthermore, the overall transparency of how and where EU funds are being spent should be improved, for example by publishing relevant information about the final contractors and beneficiaries of such funding. Publishing such information would, however, need to be in line with confidentiality and data security rights.
- For **very low and low-value grants**, the EP advocates simplified procedures in accounting and authorisation in order to create a beneficiary-driven approach.
- On the **basic control and audit obligation** of Member States (MS), the Parliament adds to the Commission’s proposal that provisions, setting out a coherent framework for all policy areas concerned, should not create any additional control structures but allow the MS to accredit bodies entrusted with the implementation of Union funds. The MS should have the competence to determine the entity or organisations carrying out the functions of the accrediting authority. Furthermore, the EP adds that all obligations for those structures should be contained in the Regulation in order to improve the overall legal certainty. Again, this amendment is very much in support of the requirements of the CoR.
- According to the EP, all draft proposals submitted to the legislative authority should be suitable for the application of user-friendly information technologies (**egovernment**) and the interoperability of

data processed in the management of the budget should be ensured, which should improve efficiency. Uniform data transmission standards for data available in electronic format should be foreseen. A transitional period of two years from the entry into force of this Regulation should be granted for the attainment of these targets. By adding this to the proposal, the EP introduces a legal transition period, which may be very useful for some LRAs.

- The EP simplifies Recital 38 of the Commission's proposal by saying that **lump sums and flat rates**^{viii} should be used on a voluntary basis and only applied where appropriate. Also, it calls for a clarification of the terminology.
- The EP calls for further clarification or a **reasonable definition of eligible costs**, as it would enhance compliance with the full cost principle, namely direct and indirect costs, upstream and downstream of research.

Generally speaking, the analysis of the aforementioned amendments shows that the changes negotiated between the Council and the EP are broadly supportive of the position of the CoR, as detailed in part 2 of this note.

1.2 Summary of the main simplification measures

1.2.1 The objectives

Efficient and effective spending, considered as one of the guiding principles of the EU budget, can be broken down into 3 main objectives, which are about (i) delivering European added value, (ii) increasing the performance of the policies, and (iii) reducing administrative burden and risk error.

Simplification measures are mostly designed to achieve the third objective and contribute therefore to more efficient and effective spending. Several reforms have already been implemented in the past, be it as part of the revision of the Financial Regulation or of the cohesion policy, in order to alleviate the administrative burden in terms of management and control, contribute to cost savings for both the Commission and beneficiaries and reduce the error rate linked to the complexity of the system. However, as underlined in the 2009 Opinion^{ix} of the High Level Group^x on Administrative Burden Reduction with regard to cohesion policy, their effects have been limited, as the administrative costs for the single act analysed in the priority area Cohesion Policy^{xi} amounted

to as much as €929m. It is worth noting here that the CoR has been active in providing input to the Group's report on best practice in Member States to implement EU legislation in the least burdensome way. The CoR organised a consultation of local and regional authorities in order to generate input for the report.

1.2.2 The policy framework

Among the major hallmarks of the next set of programmes, the Commission has proposed to develop an **integrated and results oriented strategy** in order to maximise the impact of EU funds. In essence, such a strategy consists of aligning the EU budget with the key political objectives of Europe 2020 of smart, sustainable and inclusive growth, strengthening the coordination and concentration of EU funds to serve common priorities and rewarding performance.

Developing such a strategy will have concrete implications which are at the core of the simplification measures presented in the next section. These concrete implications are: (i) the creation of the Common Strategic Framework (CSF) and common provisions governing all CSF Funds, (ii) a strong focus on outputs through the introduction of indicators and monitoring progress towards agreed objectives, (iii) the concentration of EU spending on 11 thematic objectives.

- The **CSF** aims to ensure the **coordination of five funds** – European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the future European Maritime and Fisheries Fund (EMFF) that will cover 42.2% of the next MFF. This framework will translate ‘the objectives and targets of the Union priorities of smart, sustainable and inclusive growth into key actions for the ERDF, the CF, the ESF, the EAFRD and the EMFF which will ensure an integrated use of the CSF Funds to deliver common objectives’^{xii}. But the key novelty of the CSF is the common provisions it provides with regard to the management, monitoring, evaluation, control and delivery of all funds as mentioned above. The underlying objective of the common provisions is to make the rules which govern EU funds more understandable for beneficiaries and to strengthen the coherence between the different instruments in view of increasing synergy and having greater impact.
- The **introduction of indicators** – financial, output and result indicators for each priority of a given programme aim to ‘assess progress of programme implementation towards achievement of objectives as the

basis for monitoring, evaluation and review performance^{xiii}. Common indicators and potentially programme-specific indicators will be provided by the Fund-specific rules.

- The Commission has defined a list of **thematic objectives**^{xiv} in line with the Europe 2020 strategy in order to focus the actions of the Union on a limited number of priorities and bring the greatest added value. The 11 thematic objectives will then be divided into other specific objectives for each of the CSF funds. However, as underlined in the MFF proposals and mentioned in a previous analysis (E. Molino and F. Zuleeg, with S. Chiorean-Sime (2011b)), the ‘thematic concentration’ will not be the same for each region. While it will result in a larger choice for convergence regions, competitiveness and transitions regions will be obliged to concentrate their resources on energy efficiencies, renewable energies, SME competitiveness and innovation.

The key tool through which the Commission will aim to ensure the coordination and concentration of EU funds is the **Partnership Contract**. This contract, negotiated between each Member State and the Commission, will have to set out how each State intends to translate the thematic objectives of the CSF into national investment objectives and priorities in accordance with its own macro-economic level and territorial specificities. The concrete implementation of these priorities will be articulated through the operational programmes divided into priority axes. As stipulated in Article 88 of COM(2011) 615 final, operational programmes may now receive common support from the Funds in order to better benefit from synergies and increase the added value of investments.

1.2.2 An overview of the simplification measures

Before presenting the simplification measures proposed by the Commission in both the revision of the EU FR and the cohesion policy legislative package it is important to recall that there is no definition *stricto sensu* of what constitutes a simplification measure and no criteria against which a measure can be considered as simplifying the use of EU Funds. Therefore, some measures called ‘simplification measures’ do not automatically facilitate the use of Funds by beneficiaries. That being said, it is important to underline that this section looks specifically at the measures proposed by the Commission and summarise them. A more critical analysis of the impact of these measures, on both the use of funds by LRAs and the key principle of efficient and effective spending, will be covered in Part 2.

While addressing simplification, the official documents of the Commission and the CoR often refer to some key aspects of the payment, management,

monitoring, control and evaluation system of the Funds. The simplification measures proposed by the Commission in both aforesaid proposals cover those aspects and also introduce new ones. As indicated previously, some of the simplification measures stem directly from the three aforementioned concrete implications of the move towards a more integrated and results-oriented strategy. These simplification measures can be summarised as follows:

- In both proposals, the Commission proposes **common provisions related to management, control, monitoring and evaluation** which are similar across all shared management instruments. These provisions are based on a set of four key principles, which are flexibility, proportionality, sound financial management and accountability. As an example, a system of national accreditation is introduced in order to put emphasis on the commitment of Member States to sound financial management. Besides the common principles, both proposals provide detailed information with regard to the rules for payment, the role of each authority involved in the management, control, monitoring and evaluation of the programmes as well as to the different procedures to be followed throughout the implementation process.
- The Commission's proposals also contain **common provisions on the delivery**, which include common rules on eligible expenditure, the different forms of financial support, simplified costs, and durability of operations. The key innovation under this heading concerns the availability of a wide range of reimbursement options, including simplified options such as standard scales of unit costs, flat rates and lump sums. These options are part of the strategy aiming at shifting the regime of grants from a real-cost based management towards a performance-based scheme in view to simplifying procedural and documentary requirements.
- In the cohesion policy legislative package, the Commission proposes an **integrated use of the Structural Funds supporting the 'Investment for jobs and growth' goal**. Such an integrated use implies the creation of Joint Action Plans which consist of a group of projects as part of an operational programme, with specific objectives, result indicators and outputs and means that it will be possible to combine support from the different Funds.
- The Commission suggests a **simplified use of financial instruments** so that their use can be combined with EU funds. To

this end, the Commission wants to offer ready-made solutions through access to financial instruments set up at EU level and models for national and regional funds based on standard terms and conditions laid down by the Commission. The Commission also proposes to extend the possibilities of using financial instruments so that they can be applicable for all types of investment and beneficiary. The objective of this simplification measure is to multiply the effect of Union funds as much as possible.

- In both proposals, the Commission is very much in favour of developing **E-governance**. For example, it proposes that all official exchange of information between the Member States and the Commission shall be carried out using an electronic data exchange system established by the Commission.

In addition to simplification measures, the proposals of the Commission also introduce other measures – not named as simplification measures but also contribute to the reduction of administrative burden and error risks and to achieve better efficiency – which will have a major impact on LRAs. These measures include:

- Ex ante and ex post conditionality, and the performance reserve;
 - macro-economic conditionality;
 - differentiated co-financing rates; and
 - the use of innovative financial instruments.
- The **ex ante, ex post conditionality and performance reserve** are at the core of the results-orientated strategy of the Commission. In order to ensure better spending, the Commission will ask Member States to fulfill some ex ante conditions, such as the proper functioning of public procurement systems, before the funds are disbursed. Ex ante conditions will be listed in the Partnership Contracts. Ex post conditionality will apply following the evaluation of the achievement of targets and will make the release of additional funds contingent on performance. Should the ex post evaluation be disappointing, suspension of funds might be envisaged. In the contrary, a performance reserve (amounting to 5% of the funds) will award regions which have met their milestones.
 - The rationale for **macro economic conditionality** has been explained by the Commission as needing to ensure that the effectiveness of the funds is not undermined by unsound macro-fiscal policies. Therefore, the Commission envisages to closely link cohesion policy to European economic governance by introducing macro-economic conditions in the

Partnership Contracts. Therefore, it might imply the suspension of funding if Member States do not remain within the maximum debt and deficits levels or fail to take remedial actions.

- In order to help regions with low absorption funding, and because some regions do not have the financial resources to provide national co-financing at a time of economic crisis, the Commission proposes to maintain **differentiated co-financing rates**. These rates differ according to the macro-economic status of a given region and, more specifically, according to the objective pursued by the programme and the fund used to support it. Also, the Commission foresees to **allow a temporary increase** in the co-financing rate by 10 percentage points in some specific cases, in particular when a Member State is receiving financial assistance in accordance with Article 136 and 143 of the Lisbon Treaty.
- At a time of scarce financial resources, the Commission proposes to broaden the use of **innovative financial instruments** in order to increase the leverage of Union's funds. In the cohesion policy legislative package, the Commission states that these instruments should provide support for enterprises and projects expected to generate substantial financial returns. However, the statement remains vague and the Commission does not exactly specify which instrument would be the most appropriate to achieve this objective. In the revision of the EU FR, the Commission mentions two innovations applicable to cohesion policy which consist of developing **synergy with EIB funds** and **facilitating the creation of PPPs**.

1.3 Comparison of the measures proposed by the Commission

Comparing the simplification measures proposed by the Commission in both the EU Financial Regulation and the cohesion policy legislative package allows us to determine whether they contain differences and to assess if the Commission's proposals are coherent with each other. Annex 1 provides a detailed comparison around each theme summarising the simplification measures (these themes are already listed in the above section).

By comparing the two columns of Annex 1, one can note that:

- generally speaking, both proposals are coherent with each other even if the level of details varies according to topics;

- both proposals often refer to sector or Fund-specific rules;
- the cohesion policy package provides more detailed information regarding the procedures to be followed by Fund beneficiaries;
- both proposals are vague with regards to the implementation of simplified costs options. Moreover, the EU Financial Regulation mentions the use of lump sums and flat rates only in respect of grants and do not consider expenditure implemented under shared management with MS within the meaning of grants (see Article 115);
- none of the proposals provides a clear definition of the circumstances under which (new) financial instruments should be used and the objectives they should follow.

PART 2: Simplification measures vs. the needs of LRAs

2.1.....D o simplification measures respond to the needs of LRAs?

2.1.1 The public consultation

From October to December 2009, the Commission launched a public consultation which preceded the publication of the EU Financial Regulation. This consultation was structured around 11 questions and the Commission received 235 contributions from a wide range of perspectives. 44 contributions (i.e. 19%) came from Public Authorities^{xv}. The following paragraph focuses on the opinions of LRAs and summarises their responses that are relevant to the simplification measures on the use of EU funds.

The most common contributions of LRAs related to financial management. The majority of Public Authorities expressed the need to **maintain current co-financing requirements** in order to maintain high commitment to carrying out projects. There was a general consensus that in-kind contributions should also be taken into consideration. Wide support was expressed for the **increased use of lump sums and flat rates** as a means of reducing the administrative burden for beneficiaries. However, the idea of covering costs on the basis of expected outputs created a division between those who argued that it would lead to more flexibility and more cost effective implementation of projects, and those who were against the idea due to the risk of failure and costs not being covered. Also, the majority of respondents asked for a **more flexible application of the non-profit rule**, as a way to facilitate the sustainability of projects and decrease the need to search for grants. Previously, the EU Financial Regulation stipulated that EU grants could not generate profit for beneficiaries as subsidy should not have a commercial purpose. This non-profit rule often created significant administrative work for the beneficiaries. Regarding limit for a small grant, the suggestions included, to a large extent, **an increase of the amount for low value grants** between €25.000 and €75.000, and the amount for **very low value grants** between €10.000 and €25.000. Last but not least, **pre-financing payments and the reimbursement of interests** proved unsatisfactory, most respondents preferring a rate of pre-financing that would be adapted according to the type of beneficiary, and using a standard formula for all grants to calculate

and deduct interest rates. Public authorities also raised the issue of becoming exempt from pre-financing guarantees.

With regard to the simplification of the **application procedure**, respondents generally showed clear support for both the proposed 2-step procedure^{xvi}, and for the label system allowing candidates that have already carried out a project successfully to send only documents relevant to the application. Moreover, the **use of e-tools and of digital signatures** was often called for in this context.

2.1.2 Opinions of the CoR

Annex 2 shows a selection of five documents, which illustrate the constant effort of the CoR to highlight, through its past opinions, the need to simplify the use of EU Structural Funds. The section below summarises the information provided in Annex 2.

The Committee has drawn attention to the risks of a fragmented EU funding system and called for an **integrated approach** in cohesion policy, which would facilitate the implementation of all funds. The Common Strategic Framework was highlighted as a good example of simplification measures, which could be extended also to other funds. The CoR recognised the need for improved interregional cooperation as a means to coordinate responses to common problems, and the need to create more synergies between different EU funds.

A widespread requirement of LRAs that was often indicated refers to decreasing the length of **technical and administrative procedures** and cutting unnecessary red tape in the management of cohesion policy, in order to lighten the bureaucratic burden on both beneficiaries and managing authorities. The high focus of projects on compliance with administrative procedures rather than on development strategy is a major hindrance to achieving efficient and rapid delivery of the operational programmes. In addition, the CoR advised against frequent changes and devising of new rules and standards, particularly when they have retroactive effects, as these can burden or delay the implementation of projects.

While supporting the current **rules on co-financing**, the CoR is against any downward revision of co-financing levels, and suggests the establishment of co-financing rates per priority for every operational programme. The use of a simplified lump-sum cost system when reimbursing beneficiaries and reducing the timeframe for such reimbursements would also be in the interest of LRAs.

The CoR supports the current system of managing the structural funds as a good basis, but signals the need for further simplifications and improvements. In

particular, LRAs need simplified, transparent and effective audit and monitoring procedures, with a proper application of the **proportionality principle**, and without being subjected to a full compliance audit in every funding period.

2.1.3 The coherence between Commission's proposals and the needs expressed by LRAs

The European Commission's proposal aims to address the needs that were expressed by LRAs through the aforementioned public consultation as well as through the voice of the CoR. It does so by bringing forward the set of measures presented in the previous part. This section analyses to what extent the Commission's proposals respond to the main requirements expressed by LRAs.

To begin with, the CoR often draws attention in its opinions to the risks of a **fragmented funding mechanism**, and highlights the need for an integrated approach. The proposal responds to this call and aims to streamline the various implementation methods that currently vary from centralised direct or indirect to shared, decentralised or joint management. Furthermore, the Commission tries to harmonise the rules governing the management, evaluation, monitoring and control of the funds by bringing them under a single framework.

The overall shared management between the EU level and Member States means that the latter also have a **responsibility** in conducting ex ante and ex post controls to ensure proper implementation, as well as in fulfilling the audit obligations and promoting transparency and non discrimination. In support of the simplified, single chain of accountability proposed by the Commission (see Annex 1), Member States will need to accredit public sector bodies that will manage and control the use of EU funding. These entities will be responsible for creating an efficient internal control system, using an annual accounting system, publishing the EU funds beneficiaries on an annual basis, while at the same time being subject to external auditing. Thus, a single chain of accountability will contribute to a certain extent, addressing the much highlighted need of LRAs to give greater responsibility to delivery authorities. However, it may also significantly increase the workload of LRAs.

With regard to **financial management**, the use of instruments like **lump sums** is encouraged by the Commission, in the effort to promote a more result-oriented approach, and to fix ex-ante the amount value of a grant that is needed to achieve a certain project. The proposal calls for further clarification of the lump sums system, including the standard scale of unit costs and flat rates. This is very much in line with the wide support for increased use of lump sums and flat rates expressed by LRAs in the public consultation. For the goal of easing the administrative burden, the Commission also calls for further simplification

of the rules on **interest generated by pre-financing**. To this end, the proposal aims to remove the obligation to generate interest on pre-financing, as well as the obligation to recover such interest, particularly in the case of grant beneficiaries.

Moreover, the result-oriented approach addresses the concerns of LRAs regarding the **system of delivery and monitoring**, and their call for **more emphasis on the verification of achieved results instead of the requirements of formal compliance**. However, the requests of the CoR regarding a reduction of the administrative burden in auditing and monitoring procedures, including the creation of a ‘contract of confidence’ (see Annex 2) went far beyond what the Commission proposes.

Furthermore, the request for an application of the **proportionality principle in the control procedure** is only partially addressed. Although the Commission proposes to lighten the procedures for small projects, there is no significant measure in view to avoiding duplication in auditing procedures or to introducing ‘contracts of confidence’ as required by the CoR (see CdR 210/2009 fin).

Last but not least, the proposals also encourage **electronic transmission** of documents, and the use of electronic order forms and invoices, which could potentially reduce administrative costs and workloads. This proposed measure partially responds also to the need expressed by LRAs for increased use of e-tools and digital signatures.

2.2.....W
What impact on the use of EU funds?

Assessing whether the simplification measures proposed by the Commission will really facilitate the use of EU funds for LRAs in the future would require an analysis of the impact of each measure. As it will not be possible to go through each change brought forward by the Commission within the scope of this paper, the next section will focus on the impact of the main innovations introduced in both proposals.

Some simplification measures seem to go in the right direction and illustrate the willingness of the European Commission to reduce administrative burden for managing authorities. As presented in the previous section, several measures also echo the opinions expressed by the CoR as well as the arguments put forward by different EPC studies (e.g. E. Molino, F. Zuleeg, (2011a)). Nevertheless, a closer look at the Commission’s proposals shows that the impact of simplification measures will not be as clear-cut as it is expected to be.

While the introduction of **common provisions for EU funds** allows a more integrated approach and may reduce the number of national authorities responsible for managing the programmes, one can note that the **common provisions are often very general and refer to further rules** - either fund or sector-specific. Therefore, it raises the question of whether common provisions will really lead to a reduction of administrative procedures in practice.

Furthermore, some simplification measures, such as the possibility to merge the managing and certifying authority, seem to be relatively **minor in comparison to the administrative burden** and the number of procedures that Member States and LRAs have to go through. In addition, the positive effect of some simplification measures is likely to be **minimised by the introduction of other measures**, which may create more administrative burden for the beneficiaries due to the set-up of new systems and an increased need for coordination necessary to manage joint support from funds. For instance, the Commission proposes in Article 64 of COM (2011) 615 final that Member States designate a coordinating body to liaise with and provide information to the Commission (see Annex 1). Therefore and as indicated by the Commission in Annex 5 of COM (2011) 615 final, simplification measures, particularly those related to management and control, will not lead to a reduction of costs but rather to ‘a redistribution of the burden’. However, it is difficult at this stage to see whether the Commission’s statement, saying that the burden redistribution will enable more effective mitigation of risks and lead therefore to an error rate below 5%^{xvii}, can be delivered.

With regard to measures related to the development of a more results-oriented strategy, which include the *ex ante* and *ex post* conditionality, the macro-economic conditionality as well as the introduction of indicators, previous EPC studies have already highlighted the need for caution. Not only will conditionality measures significantly penalise regions with weak administrative capacity and render them responsible for policies pertaining to national government, but **more elaborated monitoring systems** will also create **new administrative tasks**. Therefore, these conditions are likely to discourage regions which are most in need of EU funding. In addition, as already indicated in another EPC analysis (E. Molino and F. Zuleeg, with S. Chiorean-Sime (2011b)), the imposition of *ex ante* and *ex post* conditionality neither guarantees effective spending and reduced waste of money nor simplifies the use of EU funds. Moreover, the practical implementation is fraught with difficulties linked to the definition of the targets and the measurability of the outcomes.

Finally, simplification measures concerning the use of **financial instruments** as well as the introduction of innovative financial instruments raise some questions

already covered in a previous EPC study (E. Molino and F. Zuleeg (2011a)). While the study has shown that financial instruments can help mobilise the private sector and leverage additional investments, in particular in regions with scarce financial resources, the **potential regional dimension and implications** of each instrument **need to be checked**. Furthermore, the EU also needs to define which instrument is the more likely to achieve a given political objective. Therefore, simplifying the use of financial instruments is not an objective *per se*; it must be implemented under appropriate circumstances and for the right reasons. Last but not least, it is important to recall that developing the use of mixed instruments, such as EU funds combined with EIB funds, may confuse beneficiaries and complicate the management of programmes.

2.3.....M
asures depending on LRAs and national governments

This paper has shown that the proposals of the Commission contain a number of simplification measures whose impact is not clear-cut. In addition, there are a significant number of measures that will require changes exclusively for LRAs.

Firstly, national and regional administrations will have a central role in linking regional programmes to the priorities of the CSF and the Europe 2020 strategy and **adjusting them to the territorial specificities**. This makes effective cooperation between LRAs and the MS level essential.

Secondly, having an EU-integrated strategy allowing joint support of different funds and/or the use of mixed instruments will require more coordination at the national and regional level. Indeed, some programmes will now have the obligation to reach targets in different policy areas in order to contribute to the achievement of the Europe 2020 strategy. Whereas breaking policy silos is likely to increase overall performance, it may also require a **change of mentality** in some MS. Ministries and administrations whose work is often sector-specific will be now obliged to coordinate their actions.

Thirdly, the increased responsibility of MS for executing the EU budget laid down in the Lisbon Treaty will not only go hand in hand with more flexibility in terms of management and auditing. In return, national and regional administrations will have to **fulfil more conditions** and be subject to **increased controls**. In concrete terms, national governments and LRAs will have to provide strong evidence for justifying the reception of EU funds. Ex ante and ex

post conditionality, as well as monitoring progress against agreed indicators, will substantially increase the administrative workload.

Finally, the diffusion of new financial instruments, which may potentially replace or complement the traditional use of EU grants, will not be easy to implement. Indeed, the capacity to manage such instruments varies significantly across Member States and regions. Therefore, ensuring that all LRAs can have access to these instruments will require **significant capacity building** at regional level (E. Molino and F. Zuleeg (2011b)).

Conclusions

There has been a long running attempt to introduce simplification measures in relation to EU spending, in particular in policy areas such as cohesion funding. The current proposals for the FR and the Cohesion Policy proposals clearly follow this long term trend.

Many of the simplification measures go in the right direction, aiming to reduce unnecessary burden in the implementation of EU funding. In many cases, the voices of the CoR and LRAs have been heard, with many of their simplification priorities taken into account, albeit with the proposals sometimes not going as far as demanded.

But the proposals are not a silver bullet. Delivering the changes will take time and often, as seen in the past, even the best intentions can lead to an increase in administrative burden in the implementation process.

On a broader level, a number of proposals aim to improve efficiency and effectiveness of funding: the move towards a more results orientated strategy (with possibility to suspend funds in case of non-performance), conditionalities, thematic concentration, a higher emphasis on monitoring/indicators and the introduction of innovative financial instruments. But here, the concrete implementation will matter greatly: will these become further – administrative – hoops to jump through or a genuine re-orientation towards better programmes? It clearly also raises questions about the capacity of regions: those with weak administrative capacity might struggle to deal with these changes.

Funding also remains highly complex and there remains a significant burden on LRAs and indeed Member States. Fundamentally, the system is still characterised by multiple levels of administration and complex checks and balances. Unless there is a more fundamental change to the funding approach, a high level of administrative burden will remain.

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Annex 1: Comparison of the simplification measures proposed by the EC

	Measures proposed in COM (2010) 815 final (EU Financial Regulation)	Measures proposed in cohesion policy legislative package
Simplification measures		
Common provisions related to management, control, monitoring and evaluation	<p>4.3.1 The proposal seeks to simplify the different methods of implementation (centralized direct/indirect, shared, decentralised and joint management), to render the rules applicable to the different methods more coherent and to strengthen the accountability of the implementing partners so as to support the Commission in discharging its responsibility under the Treaty. The Commission proposes a set of common principles that shall apply in all cases of indirect managed (...). These principles (which may be complemented by sector specific-rules) are:</p> <ul style="list-style-type: none"> – Ex ante verification of the capacity to manage EU funds, taking due account of the specific risks of the actions concerned (flexibility and proportionality); – Management, control and audit obligations (sound financial management); – A single chain of accountability, established notably through the annual management declarations of assurance to be signed by the Commission implementing partners and a regular clearance of the accounts. <p><u>Ex ante controls:</u> Article 56</p> <p>Shared management with Member States</p> <p>2. Member States shall prevent, detect and correct irregularities and fraud when executing tasks related to the implementation of the budget. To this end they shall carry out ex ante and ex post controls including, where appropriate, on the spot checks, to ensure that the actions financed from the budget are effectively carried out and implemented correctly, recover funds unduly paid and bring legal proceedings as necessary.</p> <p><u>Management, control and audit obligations</u> Article 56</p>	<p><u>Management and control systems:</u></p> <p>5.1.4 Common management arrangements</p> <p>The proposal envisages a management and control system which is similar across shared management instruments and is based on common principles. A system of national accreditation is put in place to emphasize the commitment of Member States to sound financial management. The arrangements underpinning the assurance of the Commission with regard to the regularity of expenditure have been harmonised and new common elements such as a management declaration of assurance and annual clearance of accounts have been introduced to reinforce assurance.</p> <p>(74) It is necessary for Member States to designate a managing authority, a certifying authority and a functionally independent auditing authority for each operational programme. To provide flexibility for Member States in the set up of control systems, it is appropriate to provide the option for the functions of the certifying authority to be carried out by the managing authority. The Member State should also be allowed to designate intermediate bodies to carry out certain tasks of the managing authority or the certifying authority. The Member State should in that case lay down clearly their respective responsibilities and functions.</p> <p>Part 2 Common provisions applicable to CSF Funds</p> <p>Article 53</p> <p>Determination of co-financing rates</p>

<p>Shared management with Member States</p> <p>1. Member States shall respect the principles of sound financial management, transparency and non discrimination and ensure the visibility of Union action when they manage Union funds. To this end, Member States shall fulfil the control and audit obligations and assume the resulting responsibilities laid down in this Regulation. Complementary provisions may be laid down in sector-specific rules.</p> <p>3. In accordance with the sector-specific rules, Member States shall accredit one or more public sector bodies which shall be solely responsible for the proper management and control of the funds, for which accreditation has been granted. This shall be without prejudice to the possibility for these bodies to carry out tasks not related to the management of Union funds or to entrust certain of their tasks to other bodies. The accreditation shall be given by a Member State authority in accordance with sector specific rules ensuring that the body is capable of properly managing the funds. The sector specific rules may also define a role of the Commission in the accreditation process. The accrediting authority shall be responsible for supervising the body and for taking all necessary measures to remedy any deficiency in its operation, including the suspension and withdrawal of the accreditation.</p> <p><i>A single chain of accountability</i></p> <p>Article 56</p> <p>Shared management with Member States</p> <p>4. Bodies accredited pursuant to paragraph 3 of this Article shall:</p> <p>(a) set up and ensure the functioning of an effective and efficient internal control system;</p> <p>(b) use an annual accounting system providing accurate, complete and reliable information in a timely manner;</p> <p>(c) be subject to an independent external audit, performed in accordance with internationally accepted auditing standards by an audit service functionally independent of the accredited body;</p> <p>(d) ensure, in conformity with Article 31(2), annual ex post publication of recipients of Union funds;</p> <p>(f) ensure a protection of personal data which satisfies the principles laid down in Directive 95/46/EC.</p> <p>5. Bodies accredited pursuant to paragraph 3 of this Article shall provide the Commission by 1 February of the following financial year with:</p>	<p>1.The Commission decision adopting a programme shall fix the co-financing rate or rates and the maximum amount of support from the CSF Funds according to the Fund-specific rules.</p> <p>Article 54</p> <p>Revenue generating operations</p> <p>1.Net revenue generated after completion of an operation over a specific reference period shall be determined in advance by one of the following methods:</p> <p>(a) application of a flat rate revenue percentage for the type of operation concerned;</p> <p>(b) calculation of the current value of the net revenue of the operation, taking into account the application of the polluter-pays principle and, if appropriate, considerations of equity linked to the relative prosperity of the Member State concerned.</p> <p>The eligible expenditure of the operation to be co-financed shall not exceed the current value of the investment cost of the operation less the current value of the net revenue, determined according to one of these methods.</p> <p>2. Where it is objectively not possible to determine the revenue in advance according to the methods set out in paragraph 1, the net revenue generated within three years of the completion of an operation or by 30 September 2023, whichever is earlier, shall be deducted from the expenditure declared to the Commission.</p> <p>3. Paragraphs 1 and 2 shall apply only to operations whose total cost exceeds EUR 1 000 000.</p> <p>4.This Article shall not apply to the ESF.</p> <p>Article 62</p> <p>General principles of management and control systems</p> <p>Management and control systems shall provide for:</p> <p>(a) a description of the functions of each body concerned in management and control, and the allocation of functions within each body;</p> <p>(b) compliance with the principle of separation of functions between and within such bodies;</p> <p>(c) procedures for ensuring the correctness and regularity of expenditure declared;</p> <p>(d) computerised systems for accounting, for the storage and</p>
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	<p>(a) their accounts drawn up for the expenditure made in the execution of the tasks entrusted;</p> <p>(b) a summary of the results of all available audits and controls carried out, including an analysis of systematic or recurrent weaknesses as well as corrective actions taken or planned;</p> <p>(c) a management declaration of assurance as to the completeness, accuracy and veracity of the accounts, the proper functioning of the internal control systems as well as to the legality and regularity of the underlying transactions and the respect of the principle of sound financial management;</p> <p>(d) the opinion of an independent audit body on the management declaration of assurance mentioned in point (c) of this paragraph, covering all its elements.</p> <p>If a Member State has accredited more than one body per policy area, it shall by 15 February of the following financial year provide the Commission with a synthesis report consisting of an overview at national level of all management declarations of assurance and the independent audit opinions thereon, prepared for the policy area concerned.</p>	<p>transmission of financial data and data on indicators, for monitoring and for reporting;</p> <p>(e) systems for reporting and monitoring where the responsible body entrusts execution of tasks to another body;</p> <p>(f) arrangements for auditing the functioning of the management and control systems;</p> <p>(g) systems and procedures to ensure an adequate audit trail;</p> <p>(h) the prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest;</p> <p>Article 63 Responsibilities of Member States 1. Member States shall fulfil the management, control and audit obligations and assume the resulting responsibilities laid down in the rules on shared management set out in the Financial Regulation and the Fund-specific rules. In accordance with the principle of shared management, Member States shall be responsible for the management and control of programmes.</p> <p>Article 64 Accreditation and coordination 1. In accordance with Article 56(3) of the Financial Regulation, each body responsible for the management and control of expenditure under the CSF Funds shall be accredited by formal decision of an accrediting authority at ministerial level.</p> <p>2. The accreditation shall be granted subject to the body complying with the accreditation criteria on internal environment, control activities, information and communication, and monitoring laid down in the Fund-specific rules.</p> <p>5. The Member State may designate a coordinating body whose responsibility is to liaise with and provide information to the Commission, promote the harmonised application of Union rules, establish a synthesis report providing an overview at national level of all management declarations and the audit opinions and coordinate the implementation of remedial actions as regards any deficiencies of a common nature.</p> <p>Article 67</p>
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		<p>Common rules for payments</p> <p>2. Payments shall take the form of pre-financing, interim payments and payment of the annual balance, where applicable, and of the final balance.</p> <p>Article 68</p> <p>Common rules for calculating interim payments, payment of the annual balance, where applicable, and payment of final balance</p> <p>The Fund-specific rules shall lay down rules for the calculation of the amount reimbursed as interim payments, payment of the annual balance, where applicable, and of the final balance. This amount shall be a function of the specific co-financing rate applicable to the eligible expenditure.</p> <p>Article 69</p> <p>Requests for payment</p> <p>1. The specific procedure and information to be submitted for requests for payment shall be laid down in the Fund-specific rules.</p> <p>Article 72</p> <p>Payment of initial pre-financing</p> <p>1. Following the Commission decision adopting the programme, an initial pre-financing amount for the whole programming period shall be paid by the Commission. The initial pre-financing amount shall be paid in instalments according to budgetary needs. The instalments shall be defined in the Fund specific rules.</p> <p>2. Pre-financing shall be used only for making payments to beneficiaries in the implementation of the programme. It shall be made available without delay to the responsible body for this purpose.</p> <p>Article 73</p> <p>Clearance of initial pre-financing</p> <p>The amount paid as initial pre-financing shall be totally cleared from the Commission accounts at the latest when the programme is closed.</p> <p>Article 75</p> <p>Submission of information</p> <p>1. By 1 February of the year following the end of the accounting period, the Member State shall submit to the Commission the following</p>
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		<p>documents and information in accordance with Article 56 of the Financial Regulation (...).</p> <p>3. By [15 February] of the year following the end of the accounting period, the Member State shall submit to the Commission a synthesis report in accordance with the last subparagraph of Article 56(5) of the Financial Regulation.</p> <p>Article 76 Clearance of accounts 1. By 30 April of the year following the end of the accounting period, the Commission shall decide, in accordance with the Fund-specific rules, on the clearance of the accounts of the relevant bodies accredited pursuant to Article 64 for each programme. The clearance decision shall cover the completeness, accuracy and veracity of the annual accounts submitted and shall be without prejudice to any subsequent financial corrections. 2. The procedures for annual clearance shall be laid down in the Fund-specific rules.</p> <p>Part 3 General provisions applicable to the ERDF, the ESF and the CF</p> <p>Article 114 Functions of the managing authority (relates to clarified rules for the selection of projects) 4. As regards the selection of operations, the managing authority shall: (a) draw up and, once approved, apply appropriate selection procedures and criteria that: (i) are non-discriminatory and transparent; (ii) take into account the general principles set out in Articles 7 and 8; (b) ensure that a selected operation falls within the scope of the Fund or Funds concerned and within a category of intervention identified in the priority axis or axes of the operational programme; (c) provide to the beneficiary a document setting out the conditions for support for each operation including the specific requirements concerning the products or services to be delivered under the operation, the financing plan, and the time-limit for execution; (d) satisfy itself that the beneficiary has the administrative, financial and operational capacity to fulfil the conditions defined in point (c) before approval of the operation;</p>
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		<p>(e) satisfy itself that, where the operation has started before the submission of an application for funding to the managing authority, Union and national rules relevant for the operation have been complied with;</p> <p>(f) ensure that an applicant does not receive support from the Funds where it has been, or should have been, subject to a procedure of recovery in accordance with Article 61 following the relocation of a productive activity within the Union;</p> <p>(g) determine the categories of intervention to which the expenditure of an operation shall be attributed.</p> <p>Article 140</p> <p>Proportional control of operational programmes</p> <p>1. Operations for which the total eligible expenditure does not exceed EUR 100 000 shall not be subject to more than one audit by either the audit authority or the Commission prior to the closure of all the expenditure concerned under Article 131. Other operations shall not be subject to more than one audit per accounting year by the audit authority and the Commission prior to the closure of all the expenditure concerned under Article 131. These provisions are without prejudice to paragraph 4.</p> <p>2. For operational programmes for which the most recent audit opinion indicates that there are no significant deficiencies, the Commission may agree with the audit authority in the subsequent meeting referred to in Article 118(3) that the level of audit work required may be reduced so that it is proportionate to the risk established. In such cases, the Commission will not carry out its own on-the-spot audits unless there is evidence suggesting deficiencies in the management and control system affecting expenditure declared to the Commission in an accounting year for which the accounts have been the subject of a clearance decision.</p> <p>Major projects</p> <p>Article 90</p> <p>Content</p> <p>As part of an operational programme or operational programmes, the ERDF and the Cohesion Fund may support an operation comprising a series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature which has clearly identified goals and whose total cost exceeds</p>
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		<p>EUR 50 000 000 (a 'major project').</p> <p>Article 92 Decision on a major project 2. The Commission shall adopt a decision, by means of implementing act no later than three months after the date of submission of the information approving a major project (...). 3. Where the Commission refuses to allow support from the Funds to be given to a major project, it shall notify the Member State of its reasons within the period laid down in paragraph 2. 4. Expenditure relating to major projects shall not be included in payment applications before adoption of an approval decision by the Commission.</p> <p><u>Monitoring and evaluation</u> Article 44 Implementation reports 1. From 2016 until and including 2022, the Member State shall submit to the Commission an annual report on implementation of the programme in the previous financial year. The Member State shall submit a final report on implementation of the programme by 30 September 2023 for the ERDF, ESF and Cohesion Fund and an annual implementation report for the EAFRD and EMFF.</p> <p>Article 46 Progress report By 30 June 2017 and by 30 June 2019, the Member State shall submit to the Commission a progress report on implementation of the Partnership Contract as at 31 December 2016 and 31 December 2018 respectively.</p> <p>Evaluation Article 47 General Provisions 1. Evaluations shall be carried out to improve the quality of the design and implementation of programmes, as well as to assess their effectiveness, efficiency and impact. Impact of programmes shall be evaluated in accordance with the mission of the respective CSF Funds in relation to the targets for the Union strategy for smart, sustainable</p>
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		<p>and inclusive growth³² as well as in relation to Gross Domestic Product (GDP) and unemployment, where appropriate.</p> <p>2. Member States shall provide the resources necessary for carrying out evaluations, and shall ensure that procedures are in place to produce and collect the data necessary for evaluations, including data related to common and where appropriate programme-specific indicators.</p> <p>Article 48 Ex ante evaluation 1. Member States shall carry out <i>ex ante</i> evaluations to improve the quality of the design of each programme. 2. Ex ante evaluations shall be carried out under the responsibility of the authority responsible for the preparation of the programmes. They shall be submitted to the Commission at the same time as the programme, together with an executive summary. The Fund-specific rules may establish thresholds under which the <i>ex ante</i> evaluation may be combined with the evaluation for another programme.</p> <p>Article 50 Ex post evaluation The <i>ex post</i> evaluations shall be carried out by the Commission or by the Member States, in close cooperation. <i>Ex post</i> evaluations shall examine the effectiveness and efficiency of the CSF Funds and their contribution to the Union strategy for smart, sustainable and inclusive growth in accordance with specific requirements established in the Fund-specific rules. <i>Ex post</i> evaluations shall be completed by 31 December 2023.</p>
Common provisions on the delivery	Different forms of financial support/simplified costs 4.1. Simplification In order to simplify grant procedures and to shift towards a more result-oriented approach, the Commission proposes to facilitate the use of lump sums and other instruments allowing the Commission to reasonably assess and fix <i>ex ante</i> the amount necessary for achieving a project. In future, grant would, to a larger extent, be paid on the basis of such an <i>ex ante</i> assessment, upon evidence that the project is achieved.	A proportional approach entailing (...) the availability of a wide range of reimbursement options (...) is the preferred option since it could lead to a significant potential reduction in the cost of controls and a decline in workload and would also comply better with the subsidiarity principle'. COM (2011) 615 final, p.6. Simplified options such as flat rates and lump sums provide the means for Member States to introduce performance-oriented management at the level of individual operations.' COM (2011) 615

		<p>final, p.10.</p> <p>Article 56 Forms of support The CSF shall be used to provide support in the form of grants, prizes, repayable assistance and financial instruments, or a combination thereof.</p> <p>Article 57 Forms of grants 1.Grants may take any of the following forms: (a) reimbursement of eligible costs actually incurred and paid, together with, where applicable, in-kind contributions and depreciation; (b) standard scales of unit costs; (c) lump sums not exceeding EUR 100 000 of public contribution; (d) flat-rate financing, determined by the application of a percentage to one or several defined categories of costs. (...) 4. The amounts referred to in paragraph 1(b), (c) and (d) shall be established on the basis of: (a) a fair, equitable and verifiable calculation method based on: (i) statistical data or other objective information; or (ii) the verified historical data of individual beneficiaries or the application of their usual cost accounting practices; (b) methods and corresponding scales of unit costs, lump sums and flat rates applicable in Union policies for a similar type of operation and beneficiary; (c) methods and corresponding scales of unit costs, lump sums and flat rates applied under schemes for grants funded entirely by the Member State for a similar type of operation and beneficiary; (d) rates established by this Regulation or the Fund-specific rules.’</p> <p>Article 58 Flat rate financing for indirect costs for grants Where the implementation of an operation gives rise to indirect costs, they may be calculated as a flat rate in one of the following ways: (a) a flat rate of up to 20 % of eligible direct costs, where the rate is calculated on the basis of a fair, equitable and verifiable calculation method or a method applied under schemes for grants funded entirely</p>
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		<p>by the Member State for a similar type of operation and beneficiary; (b) a flat rate of up to 15 % of eligible direct staff costs; (c) a flat rate applied to eligible direct costs based on existing methods and corresponding rates, applicable in Union policies for a similar type of operation and beneficiary.’</p> <p>In the context of the CAP, the current rules on administrative costs and the control systems will be maintained and sustained’. COM (2011) 615 final, p.10.</p> <p>Article 54 Revenue-generating operations 1. Net revenue generated after completion of an operation over a specific reference period shall be determined in advance by one of the following methods: (a) application of a flat rate revenue percentage for the type of operation concerned; (b) calculation of the current value of the net revenue of the operation, taking into account the application of the polluter-pays principle and, if appropriate, considerations of equity linked to the relative prosperity of the Member State concerned. The eligible expenditure of the operation to be co-financed shall not exceed the current value of the investment cost of the operation less the current value of the net revenue, determined according to one of these methods. The Commission shall be empowered to adopt delegated acts in accordance with Article 142 concerning the definition of the flat rate referred to in point (a) above.</p> <p>Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund and repealing Regulation (EC) No 1081/2006 - COM(2011) 607 final Article 14 Simplified cost options 1. In addition to the methods referred to in Article 57 of Regulation (EU) No [...], the Commission may reimburse expenditure paid by Member States on the basis of standard scales of unit costs and lump sums defined by the Commission. The amounts calculated on this basis shall be regarded as public support paid to beneficiaries and as eligible expenditure for the purpose of applying Regulation (EU) No [...]. For this purpose the Commission shall be empowered to adopt</p>
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		<p>delegated acts in accordance with Article 16 concerning the type of operations covered, the definitions of the standard scales of unit costs and lump sums and their maximum amounts, which may be adjusted according to the applicable commonly agreed methods.</p> <p>Financial audit shall exclusively aim at verifying that the conditions for reimbursements by the Commission on the basis of standard scales of unit costs and lump sums have been fulfilled.</p> <p>Where these forms of funding are used, the Member State may apply its accounting practices to support operations. For the purpose of this regulation and Regulation (EU) No [...] these accounting practices and the resulting amounts shall not be subject to audit by the audit authority or by the Commission.</p> <p>2. In accordance with Article 57(1)(d) and (4)(d) of Regulation (EU) No [...], a flat rate of up to 40 % of the eligible direct staff costs may be used in order to cover the remaining eligible costs of an operation.</p> <p>3. Grants reimbursed on the basis of the eligible cost of operations, determined in the way of flat-rate financing, standard scales of unit costs and lump sums as referred to in Article 57(1) of Regulation (EU) No [...] may be calculated on a case-by-case basis by reference to a draft budget agreed ex ante by the Managing Authority, where the public support does not exceed EUR 100000.</p> <p>4. Grants for which the public support does not exceed EUR 50000 shall take the form of lump sums or standard scales of unit costs, except for operations receiving support within the framework of a state aid scheme.</p>
	Eligibility rules	
		<p>In the current period, many beneficiaries using funds from different Union funding instruments are faced with different eligibility rules which increases the complexity of management and thus also the risk of errors. Emphasis has therefore been placed on measures to ensure that administrative costs are proportionate and that the administrative burden associated with the management of EU funds by beneficiaries is reduced. COM (2011) 615 final, p.10.</p> <p>Article 55 Eligibility</p> <p>1. The eligibility of expenditure shall be determined on the basis of national rules, except where specific rules are laid down in or on the</p>

		<p>basis of this Regulation or the Fund-specific rules.</p> <p>2. Expenditure shall be eligible for a contribution from the CSF Funds if it has been incurred and paid by a beneficiary between the date of submission of the programme to the Commission or from 1 January 2014, whichever is earlier, and 31 December 2022. In addition, expenditure shall only be eligible for a contribution from the EAFRD and the EMFF if the relevant aid is actually paid by the paying agency between 1 January 2014 and 31 December 2022.</p> <p>3. In the case of costs reimbursed on the basis of Article 57(1)(b) and (c), the actions constituting the basis for reimbursement shall be carried out between 1 January 2014 and 31 December 2022.</p> <p>4. Operations shall not be selected for support by the CSF Funds where they have been physically completed or fully implemented before the application for funding under the programme is submitted by the beneficiary to the managing authority, irrespective of whether all related payments have been made by the beneficiary.</p> <p>5. This Article shall be without prejudice to the rules on eligibility of technical assistance at the initiative of the Commission set out in Article 51.</p> <p>6. Net revenue directly generated by an operation during its implementation which has not been taken into account at the time of approval of the operation, shall be deducted from the eligible expenditure of the operation in the final payment claim submitted by the beneficiary. This rule shall not apply to financial instruments and prizes.</p> <p>7. In the case of amendment of a programme, expenditure becoming eligible because of the amendment to the programme shall only be eligible from the date of submission to the Commission of the request for amendment.</p> <p>8. An operation may receive support from one or more CSF Funds and from other Union instruments, provided that the expenditure item included in a request for payment for reimbursement by one of the CSF Funds does not receive support from another Fund or Union instrument, or support from the same Fund under another programme.</p> <p>Article 59 Specific eligibility rules for grants</p> <p>1. Contributions in kind in the form of provision of works, goods, services, land and real estate for which no cash payment supported by</p>
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		<p>invoices or documents of equivalent probative value has been made, may be eligible provided that the eligibility rules of the CSF Funds and the programme allow for it and that all the following conditions are fulfilled:</p> <p>(a) the public support paid to the operation which includes contributions in kind shall not exceed the total eligible expenditure, excluding contributions in kind, at the end of the operation;</p> <p>(b) the value attributed to contributions in kind does not exceed the costs generally accepted on the market in question;</p> <p>(c) the value and the delivery of the contribution can be independently assessed and verified;</p> <p>(d) in the case of provision of land or real estate, the value is certified by an independent qualified expert or duly authorised official body and does not exceed the limit laid down in paragraph 3(b);</p> <p>(e) in the case of contributions in kind in the form of unpaid work, the value of that work is determined taking into account the verified time spent and the rate of remuneration for equivalent work.</p> <p>2. Depreciation costs may be considered as eligible under the following conditions:</p> <p>(a) the eligibility rules of the programme allow for it;</p> <p>(b) the amount of the expenditure is duly justified by supporting documents having equivalent probative value to invoices where reimbursed in the form referred to in Article 57(1)(a);</p> <p>(c) the costs relate exclusively to the period of support for the operation;</p> <p>(d) public grants have not contributed towards the acquisition of the depreciated assets.</p> <p>3. The following costs shall not be eligible for a contribution from the CSF Funds:</p> <p>(a) interest on debt;</p> <p>(b) the purchase of land not built on and land built on in the amount exceeding 10% of the total eligible expenditure for the operation concerned. In exceptional and duly justified cases, a higher percentage may be permitted for operations concerning environmental conservation;</p> <p>(c) value added tax. However, VAT amounts shall be eligible where they are not recoverable under national VAT legislation and are paid by a beneficiary other than non-taxable person as defined in the first subparagraph of Article 13(1) of Directive 2006/112/EC, provided that such VAT amounts are not incurred in relation to the provision of</p>
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		<p>infrastructure.</p> <p>Article 60</p> <p>Eligibility of operations depending on location</p> <p>1. Operations supported by the CSF Funds, subject to the derogations referred to in paragraphs 2 and 3, and the Fund-specific rules, shall be located in the area covered by the programme under which they are supported (the 'programme area').</p> <p>2. The managing authority may accept that an operation is implemented outside the programme area but within the Union, provided that all the following conditions are satisfied:</p> <p>(a) the operation is for the benefit of the programme area;</p> <p>(b) the total amount allocated under the programme to operations located outside the programme area does not exceed 10 % of the support from the ERDF, Cohesion Fund and EMFF at the level of the priority, or 3% of the support from the EAFRD at the level of the programme;</p> <p>(c) the monitoring committee has given its agreement to the operation or types of operations concerned;</p> <p>(d) the obligations of the authorities for the programme in relation to management, control and audit concerning the operation are fulfilled by the authorities responsible for the programme under which that operation is supported or they enter into agreements with authorities in the area in which the operation is implemented provided that the conditions set out in paragraph 2 (a) and the obligations in relation to management, control and audit concerning the operation are fulfilled.</p> <p>3. For operations concerning promotional activities, expenditure may be incurred outside the Union provided that the conditions set out in paragraph 2 (a) and the obligations in relation to management, control and audit concerning the operation are fulfilled.</p> <p>4. Paragraphs 1 to 3 shall not apply to programmes under the European territorial cooperation goal or to the ESF.</p> <p>Proposal for a Regulation of the European Parliament and of the Council on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006 -COM(2011) 612 final</p> <p>Article 2</p> <p>Scope of support from the Cohesion Fund</p> <p>1. The Cohesion Fund shall, while ensuring an appropriate balance and</p>
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		<p>according to the investment and infrastructure needs specific to each Member State, support:</p> <ul style="list-style-type: none"> (a) investments in the environment, including areas related to sustainable development and energy which present environmental benefits; (b) trans-European networks in the area of transport infrastructure, in compliance with the guidelines adopted by Decision No 661/2010/EU; (c) technical assistance. <p>2. The Cohesion Fund shall not support:</p> <ul style="list-style-type: none"> (a) the decommissioning of nuclear power stations; (b) the reduction of greenhouse gas emissions in installations falling under Directive 2003/87/EC; (c) housing. <p>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 –COM(2011) 614 final</p> <p>Article 3</p> <p>Scope of support from the ERDF</p> <p>1. The ERDF shall support:</p> <ul style="list-style-type: none"> (a) productive investment, which contributes to creating and safeguarding sustainable jobs, through direct aid to investment in small and medium-sized enterprises (SMEs); (b) investments in infrastructure providing basic services to citizens in the areas of energy, environment, transport, and information and communication technologies (ICT); (c) investments in social, health and educational infrastructure; (d) development of endogenous potential by supporting regional and local development and research and innovation. These measures shall include: <ul style="list-style-type: none"> (i) fixed investment in equipment and small-scale infrastructure; (ii) support for and services to enterprises, in particular SMEs; (iii) support to public research and innovation bodies and investment in technology and applied research in enterprises; (iv) networking, cooperation and exchange of experience between regions, towns, and relevant social, economic and environmental actors; (v) technical assistance. <p>In more developed regions, the ERDF shall not support investments in</p>
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		<p>infrastructure providing basic services to citizens in the areas of environment, transport, and ICT.</p> <p>2. The ERDF shall not support:</p> <ul style="list-style-type: none"> (a) the decommissioning of nuclear power stations; (b) the reduction of greenhouse gas emissions in installations falling under Directive 2003/87/EC; (c) the manufacturing, processing and marketing of tobacco and tobacco products; (d) undertakings in difficulties as defined under Union State aid rules. <p>Article 8</p> <p>Urban development platform</p> <p>1. The Commission shall establish, in accordance with Article 51 of Regulation (EU) No [...] /2012 [CPR], an urban development platform to promote capacity-building and networking between cities and exchange of experience on urban policy at Union level in areas related to the investment priorities of the ERDF and to sustainable urban development.</p> <p>2. The Commission shall adopt a list of cities to participate in the platform on the basis of the lists established in the Partnership Contracts, by means of implementing acts. Those implementing acts shall be adopted in accordance with the advisory procedure referred to in Article 14(2).</p> <p>The list shall contain a maximum number of 300 cities, with a maximum number of 20 per Member State. Cities shall be selected based on the following criteria:</p> <ul style="list-style-type: none"> (a) population, taking account of the specificities of national urban systems; (b) the existence of a strategy for integrated actions to tackle the economic, environmental, climate and social challenges affecting urban areas. <p>3. The platform shall also support networking between all cities which undertake innovative actions at the initiative of the Commission.</p> <p>Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund and repealing Regulation (EC) No 1081/2006 - COM(2011) 607 final</p> <p>Article 13</p>
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		<p>Eligibility of expenditure</p> <p>1. The ESF shall provide support for eligible expenditure, which, notwithstanding Article 109(2)(b) of Regulation (EU) No [...], may include any financial resources collectively constituted by employers and workers.</p> <p>2. By derogation to Article 60(2) of Regulation (EU) No [...], the ESF may provide support for expenditure incurred for operations which take place outside the programme area, but within the Union, provided that the two following conditions are satisfied:</p> <p>(a) the operation is for the benefit of the programme area;</p> <p>(b) the obligations of the authorities for the programme in relation to management, control and audit concerning the operation are fulfilled by the authorities responsible for the programme under which that operation is supported or they enter into agreements with authorities in the Member State in which the operation is implemented provided that the conditions set out in paragraph 2 (a) and the obligations in relation to management, control and audit concerning the operation are fulfilled.</p> <p>3. In addition to the expenditure referred to in Article 59(3) of Regulation (EU) No [...], the purchase of infrastructure, land and real estate shall not be eligible for a contribution from the ESF.</p> <p>4. Contributions in kind in the form of allowances or salaries disbursed by a third party for the benefit of the participants in an operation may be eligible for a contribution from the ESF provided that its value does not exceed the cost borne by the third party and that it is incurred in accordance with national rules, including accountancy rules.</p>
	<p>Durability of operations</p>	<p>Article 61</p> <p>Durability of operations</p> <p>An operation comprising investment in infrastructure or productive investment shall repay the contribution from the CSF Funds if within five years from the final payment to the beneficiary or within the period of time set out in the State aid rules, where applicable, it is subject to:</p> <p>(a) a cessation or relocation of a productive activity;</p> <p>(b) a change in ownership of an item of infrastructure which gives to a firm or a public body an undue advantage; or</p> <p>(c) a substantial change affecting its nature, objectives or implementation conditions which would result in undermining its original objectives. Sums unduly paid in respect of the operation shall</p>

		<p>be recovered by the Member State.</p> <p>2. Operations supported by the ESF and operations supported by the other CSF Funds that are not investment in infrastructure or productive investments shall repay the contribution from the Fund only where they are subject to an obligation for maintenance of investment under the applicable State aid rules and where they undergo a cessation or relocation of a productive activity within the period laid down in those rules.</p> <p>3. Paragraphs 1 and 2 shall not apply to contributions to or by financial instruments or to any operation which undergoes cessation of a productive activity due to a non-fraudulent bankruptcy.</p> <p>4. Paragraphs 1 and 2 shall not apply to natural persons who are beneficiary of investment support and, after the completion of the investment operation, become eligible for and receive support under the EGF (Regulation [2012] setting a European Globalisation Fund) where the investment concerned is directly linked to the type of activity identified as eligible for EGF support.</p>
<p>Integrated use of the Structural Funds supporting the ‘Investments for jobs and growth’ goal</p>		<p>62. With a view to improving complementarities and simplifying implementation, it should be possible to combine support from the CF and the ERDF with support from the ESF in joint operational programmes under the growth and jobs goal.</p> <p>Article 88</p> <p>Joint support from the Funds</p> <p>1. The Funds may jointly provide support for operational programmes under the Investment for growth and jobs goal.</p> <p>Joint Action Plan</p> <p>(...), the Commission proposes to introduce the Joint Action Plans, which are operations comprising a group of projects as part of an operational programme, with specific objectives, result indicators and outputs agreed between the Member State and the Commission (p.11).</p> <p>Article 93</p> <p>Scope</p> <p>1. A joint action plan is an operation defined and managed in relation to the outputs and results which it will achieve. It comprises a group of projects, not consisting in the provision of infrastructure, carried out</p>

		<p>under the responsibility of the beneficiary, as part of an operational programme or programmes. The outputs and results of a joint action plan shall be agreed between the Member State and the Commission and shall contribute to specific objectives of the operational programmes and form the basis of support from the Funds. Results shall refer to direct effects of the joint action plan. (...)</p> <p>2. The public support allocated to a joint action plan shall be a minimum of EUR 10 000 000 or 20 % of the public support of the operational programme or programmes, whichever is lower.</p>
<p>Simplified use of financial instruments</p>	<p>40. Financial instruments are increasingly valuable to multiply the effect of Union funds when those funds are pooled with others funds or include a leverage effect. Since such financial instruments cannot be assimilated to services or grants, a new type of financial support should be established.</p> <p>Article 130 Definition and scope</p> <p>1. For the purpose of this Regulation, "financial instruments" shall mean Union measures of financial support provided from the budget in order to address a specific policy objective by way of loans, guarantees, equity or quasi-equity investments or participations, or other risk bearing instruments, possibly combined with grants.</p> <p>2. The provisions of this Title shall also apply to elements directly related to financial instruments, including technical assistance.</p> <p>3. The Commission may implement financial instruments in direct management mode, or in indirect management mode by entrusting tasks to the entities referred to in points (iii) and (iv) of Article 55(1)(b).</p> <p>Article 131 Principles applicable to financial instruments</p> <p>1. Financial instruments shall be provided to final recipients of Union funds in accordance with sound financial management, transparency and equal treatment and in accordance with the objectives established in the basic act that applies to those financial instruments.</p> <p>2. Without prejudice to points (d) and (e) of article 46(1), the budgetary expenditure linked to a financial instrument shall be kept within the relevant budgetary commitment made for it.</p> <p>3. Financial intermediaries involved in the execution of financial operations under a financial instrument shall comply with relevant standards on the</p>	<p>In addition to grant funding, it is proposed that support for enterprises and projects expected to generate substantial financial returns will be delivered primarily through innovative financial instruments. While financial instruments will remain similar to those employed in 2007-2013, several elements of simplification should be emphasized. First, the Commission will offer ready made solutions through access to financial instruments set up at EU level and models for national and regional funds based on standard terms and conditions laid down by the Commission. Second, the proposal represents a clear framework for the implementation of these instruments, and addresses the ambiguities which arose in the context the 2007- 2013 legislative framework, increasing legal certainty for all parties. Third, financial instruments can in the future be used for all types of investment and beneficiary representing a significant extension of the possibilities to use these innovative instruments. COM (2011) 615 final, p.5.</p> <p>Article 32 Financial instruments</p> <p>1. The CSF Funds may be used to support financial instruments under a programme, including when organised through funds of funds, in order to contribute to the achievement of specific objectives set out under a priority, based on an <i>ex ante</i> assessment which has identified market failures or suboptimal investment situations, and investment needs. (...)</p> <p>2. Final recipients supported by financial instruments may also receive grants or other assistance from a programme or from another instrument supported by the budget of the Union. In this case, separate records must be maintained for each source of financing.</p>

	<p>prevention of money laundering and fight against terrorism. They shall not be established in territories whose jurisdictions do not co-operate with the Union in relation to the application of internationally agreed tax standards.</p> <p>4. Each agreement between an entity referred to in point (iii) and (iv) of Article 55(1)(b) and a financial intermediary referred to in paragraph 3 shall provide expressly for the Commission and the Court of Auditors to exercise their powers of control, on documents and on the premises and on information, even stored on electronic media, over all third parties who have received Union funds.</p>	<p>Article 33</p> <p>Implementation of financial instruments</p> <p>1. In implementing Article 32, managing authorities may provide a financial contribution to the following financial instruments:</p> <p>(a) financial instruments set up at Union level, managed directly or indirectly by the Commission;</p> <p>(b) financial instruments set up at national, regional, transnational or cross border level, managed by or under the responsibility of the managing authority.</p> <p>2. Title VIII of the Financial Regulation shall apply to financial instruments referred to in paragraph 1(a). Contributions from the CSF Funds to financial instruments under paragraph 1(a) shall be placed in separate accounts and used, in accordance with the objectives of the respective CSF Funds, to support actions and final recipients consistent with the programme or programmes from which such contributions are made.</p> <p>3. For financial instruments under paragraph 1(b), the managing authority may provide a financial contribution to the following financial instruments:</p> <p>(a) financial instruments complying with the standard terms and conditions laid down by the Commission, by means of implementing acts in accordance with the examination procedure referred to in Article 143(3);</p> <p>(b) already existing or newly created financial instruments which are specifically designed to achieve the intended purpose and which respect the applicable Union and national rules. (...)</p> <p>Article 39</p> <p>Use of legacy resources after closure of the programme</p> <p>Member States shall adopt the necessary measures to ensure that the capital resources and gains and other earnings or yields attributable to the support from the CSF Funds to financial instruments are used in accordance with the aims of the programme for a period of at least 10 years after the closure of the programme.</p> <p>Article 40</p> <p>Report on Implementation of Financial Instruments</p> <p>1. The managing authority shall send to the Commission a specific</p>
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		<p>report covering the operations comprising financial instruments as an annex to the annual implementation report.</p> <p>2. The report referred to in paragraph 1 shall include, for each financial instrument, the following information:</p> <ul style="list-style-type: none"> (a) identification of the programme and of the priority from which support from the CSF Funds is provided; (b) description of the financial instrument and implementation arrangements; (c) identification of the bodies to whom implementation tasks have been entrusted; (d) total amount of support by programme and priority or measure to the financial instrument included in requests for payment submitted to the Commission; (e) total amount of support paid or committed in guarantee contracts by the financial instrument to the final recipients by programme and priority or measure included in requests for payment submitted to the Commission; (f) revenues of, and repayments to, the financial instrument; (g) multiplier effect of investments made by the financial instrument and value of investments and participations; (h) contribution of the financial instrument to the achievement of the indicators of the programme and of the priority concerned. (...) <p>Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund and repealing Regulation (EC) No 1081/2006 - COM(2011) 607 final</p> <p>Article 15</p> <p>Financial instruments</p> <p>1. Pursuant to Article 32 of Regulation (EU) No [...], the ESF may support actions and policies falling within its scope through financial instruments, such as risk-sharing schemes, equity and debt, guarantee funds, holding funds, and loan funds.</p> <p>2. ESF may be used to enhance access to capital markets for public and private bodies at national and regional levels implementing actions and policies falling within the scope of the ESF and the operational programme through ‘ESF policy-based guarantees’ subject to Commission approval.</p> <p>The Commission shall be empowered to adopt delegated acts in</p>
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		<p>accordance with Article 16 to define the specific rules and conditions for the applications of Member States, including ceilings, for policy-based guarantees, ensuring in particular that their use does not lead to excessive levels of debt of public bodies.</p> <p>Each application shall be assessed by the Commission and the Commission shall approve each 'ESF policy-based guarantee' provided it falls within the remit of the Operational Programme referred to in Article 87 of Regulation (EU) No [...] and provided it is in accordance with the established specific rules and conditions.</p>
<p>E-governance</p>	<p>(33). Institutions should be allowed to give their prior agreement in order to officially accept the transmission of documents by electronic procedure. Moreover, in accordance with Commission decisions on electronic and digitised documents, financial provisions on verifications applicable to commitments should be updated and recognise explicitly the legal value of electronic order forms and invoices for the registration of legal commitments.</p>	<p>A proportional approach entailing (...) advanced eGovernance at the level of Member States and regions is the preferred option since it could lead to a significant potential reduction in the cost of controls and a decline in workload and would also comply better with the subsidiarity principle. COM (2011) 615 final, p.6.</p> <p>Article 63 Responsibilities of Member States 4. All official exchanges of information between the Member States and the commission shall be carried out using an electronic data exchange system established by the Commission.</p> <p>Article 112 Responsibilities of Member States 3. Member States shall ensure that no later than 31 December 2014, all exchanges of information between beneficiaries and managing authorities, certifying authorities, audit authorities and intermediate bodies can be carried out solely by means of electronic data exchange systems.</p> <p>The systems shall facilitate interoperability with national and Union frameworks and allow for the beneficiaries to submit all information referred to in the first sub-paragraph only once.</p> <p>The Commission shall adopt, by means of implementing acts, detailed rules concerning the exchanges of information under this paragraph.</p>

Prefinancing	<u>Interests generated by prefinancing:</u> (8) The rules governing interest generated by pre-financing should be simplified as they generate excessive administrative burden on both recipients of Union funds and Commission services and create misunderstandings between the Commission services and operators and partners. For reasons of simplification, in particular in respect of grant beneficiaries, and in line with the principle of sound financial management, there should no longer be an obligation to generate interest on pre-financing and to recover such interest. [However, it should be possible to include such obligation in a delegation agreement in order to allow the re-use of interests generated by prefinancing for the programmes managed by some delegates, or its recovery.	
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Annex 2: Comparison of CoR opinions

	CdR 369/2010 fin Opinion of the CoR on the Fifth Cohesion Report. The CoR:	CdR 210/2009 fin Outlook Opinion of the CoR on The Future of Cohesion Policy. The CoR:	CdR 159/2010 fin Opinion of the CoR on Cohesion Policy: Strategic Report 2010 on the Implementation of the programmes 2007-2013. The CoR:	CdR 370/2010 fin Outlook Opinion of the CoR on the Future of the European Social Fund after 2013. The CoR:	CdR 318/2010 fin Opinion of the CoR on the EU Budget Review. The CoR:
Topic					
Integrated approach/Common priorities/Interregional cooperation	<p>11. supports the integrated approach followed in cohesion policy in order to encourage the complementarity of all funds (Cohesion Fund, ERDF, ESF, EAFRD and EFF) and facilitate their implementation through an integrated approach.</p> <p>16. considers that the flexibility between the ERDF and the ESF should be encouraged and simplified in the future, most notably via the new Common Strategic Framework and particularly when it comes to local development approaches and the integrated plans of towns and local authorities</p>		<p>4. stresses that fragmentation of EU funding is a barrier to the effective implementation of projects and is hampering the focus on common priorities for development.</p>	<p>30. reiterates [...] the need for closer interplay between the funds with a specifically territorial dimension, i.e. the ESF and the ERDF, in order to create new job opportunities and improve employability through education and training. Considers that the Common Strategic Framework announced in the Fifth Cohesion Report to be the best place to ensure unity of purpose, the integration of measures among the various EU funds and consistency with the objectives of Europe 2020</p>	<p>31. approves the proposed common strategic framework covering the Structural Funds and other funds for territorial development such as the EAFRD and the EFF and believes such simplification approaches could be extended to other funds in future;</p>

	<p>22. calls on the European Commission to facilitate new territorial partnerships by simplifying and improving the way in which interregional cooperation programmes are managed. Improved interregional cooperation ensures not only a coordinated approach to shared problems, but also recognises that innovative solutions are not delimited by existing territorial boundaries</p> <p>24. calls on the European Commission to improve the current cooperation on the external borders. In particular it is necessary to simplify procedures and establish more synergies between the assistance provided through the ERDF, through the European Neighbouring Partnership Instrument (ENPI) and through the European Development Fund (EDF);</p> <p>67. would welcome a review of procedures relating to territorial cooperation programmes with a view to establishing common rules across programmes so that nationally accepted audit procedures can apply to</p>				
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	partners and thus removing the need for lead partners to verify audits from other Member States.					
Topic	CdR 369/2010 fin The CoR:	CdR 210/2009 fin The CoR:	CdR 159/2010 fin The CoR:	CdR 370/2010 fin The CoR:	CdR 318/2010 fin The CoR:	
Simplification and results-orientation of the delivery system regarding specifically the ESF	14. hopes that the profile of projects funded via the ESF can be raised through more regionally-oriented implementation based on specific, practical local needs so as to make them more visible, complementing communication and awareness initiatives financed within the framework of technical assistance at EU, national and regional levels			32. stresses that the European Social Fund objective relating to human resources clearly has aspects in common with and complementary to the ERDF, the EAFRD, and the EFF . Considers that optimal synergies could be achieved through integrated programming and closely coordinated management 35. considers that the system of delivery and monitoring should be less influenced by the requirements of formal procedures (formal compliance) and by objectives relating to the use of resources, and increasingly focus instead on the key issues of checking the results actually achieved and compliance with the timetable for those achievements . To this end, encouragement should be given to counterfactual impact analysis of the activities financed so as to check what really works and what does not; 36. considers that, for the post-2013 ESF, the process of simplification		34. welcomes the intention to increase the visibility and the scope of the ESF, including a stronger focus on social inclusion ; reiterates its support for the ESF remaining part of the Cohesion Policy ; emphasises that the ESF's visibility and the effectiveness of its action depend on an integrated approach being taken to investment in human capital alongside that in infrastructure, R&D and innovation ;

				<p>of the implementation of co-financed measures in the context of the operational programmes should continue [...] The aim is to improve and consolidate the simplification of delivery and monitoring procedures, the idea being to streamline and lighten the bureaucratic and administrative requirements facing beneficiaries of the ESF and the organisations responsible for managing it.</p> <p>41. recognises [...] a significant amount of often unnecessary red tape, which causes high administrative costs and delays in the implementation of programmes;</p> <p>43. considers that the delivery authorities should be given greater responsibility in determining the appropriate procedures in accordance with their respective national and regional arrangements, reducing the level of controls that, objectively, tend to substantially increase the length of technical and administrative procedures and the burden on beneficiaries.</p>	
Topic	CdR 369/2010 fin The CoR:	CdR 210/2009 fin The CoR:	CdR 159/2010 fin The CoR:	CdR 370/2010 fin The CoR:	CdR 318/2010 fin The CoR:

<p>Reducing the administrative burden</p>		<p>23. notes in this regard that the devolved approach to cohesion policy has proven successful and should be retained. However, thought should be given to which procedures might lend themselves to further simplification in order to cut the red tape involved in the management of cohesion policy</p> <p>35. would stress the ongoing concern for less red tape and consistently simpler administrative procedures for the allocation, use, settlement and monitoring of financial resources from the EU structural funds. This should also be factored into the rules for the planning of future programmes;</p> <p>60. supports continuing and stepping up efforts to cut red tape and simplify procedures [...].More streamlined and transparent procedures are important prerequisites for efficient resource allocation.</p>	<p>2. regrets that because of the complexity of the funding mechanism, European projects are driven more and more by compliance with administrative procedures rather than development strategy. This is considered one of the major barriers to efficient, speedy and effective delivery of the operational programmes (OP).</p> <p>7. frequent changes generate administrative burdens and delays in implementation. The practice of laying down rules and standards with retroactive effect complicates the implementation and must be avoided in the future.</p> <p>28. calls for a streamlining of programming, monitoring and evaluation of cohesion policy with a view to improving the advisory role of the European Commission and decreasing the administrative burden related, in particular, to control and audit.</p> <p>34. encourages Member States and the European Commission to assess the results achieved through the simplification measures adopted in 2008 and 2009 and implemented by the Member States, in particular with a view to cost and effort proportion of the measures. Further measures that could contribute</p>	<p>CoR:</p>	
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			substantially to the overall goal of reducing the administrative burdens of cohesion policy at all levels are still needed;		
Topic	CdR 369/2010 fin The CoR:	CdR 210/2009 fin The CoR:	CdR 159/2010 fin The CoR:	CdR 370/2010 fin The CoR:	CdR 318/2010 fin The CoR:
Co-financing Lump-sum Simplification of audit and monitoring procedures	56. supports retaining EU co-financing that ensures ownership of and accountability for the policy on the ground. As in the current period, EU co-financing levels should be differentiated per target in line with each region's level of development. However, the Committee is opposed to any downward revision of co-financing levels , which should not be used as adjustment variables in the event of budget cuts ensuing from the inter-institutional agreement on the forthcoming financial perspectives. It also queries the Commission's	36. The Committee of the Regions would therefore advocate a simple, transparent yet effective monitoring procedure . The Committee sees no need to conduct a full compliance audit in each funding period. Instead, the established rules in place for national funding should be deemed sufficient. Consideration should also be given to the structure of the audit bodies, the monitoring standards and the definition and determination of the margin of error with a view to possible simplification 37. points out that fresh scope for simplification might also be provided as a result of the new provision under the Lisbon Treaty	37. underlines the need for simplification of European legislation and audit practices in order to resolve promptly and uniformly questions concerning interpretation of the structural funds regulation and to make the answers available to the public 38. calls for simple, transparent and effective monitoring procedures and in particular for the application of the proportionality principle in the control procedure knowing that		

	<p>proposal to differentiate co-financing levels to reflect the EU added value, types of action and beneficiaries. The danger here is that this could create complexities that may lead to irregularities and further complicate the task of managing authorities. Finally, the Committee points out that co-financing rates per priority should be established for each operational programme, so that they are appropriate to the priority targets set.</p> <p>66. encourages the Commission to use a simplified lump-sum cost system for reimbursing beneficiaries both for the ERDF and the ESF</p>	<p>whereby Member States are also to take responsibility for executing the EU budget. The CoR suggests that an additional simplification will be achieved through the Commission analysing Member States' audit procedures and seeing if "contracts of confidence" with regions can be reached to avoid duplication in auditing procedures. The principle of proportionality of regulations on small projects should be applied to reduce burdens;</p>	<p>too many administrative rules increase rather than reduce the margin of errors.</p>		
<p>Simplifying the managing system of the Structural Funds</p>	<p>64. opposes any radical change to the current system of managing the Structural Funds as proposed by the Commission under the revision of the Financial Regulation. The Committee therefore calls on the Commission to maintain the current system, which is beginning to bear fruit as regards reducing the rate of errors and irregularities; it is to this system that the necessary improvements and simplifications should be made;</p>		<p>21. believes that, with a view to future programming and in order to stimulate policy learning, the European Commission should start a debate with local and regional authorities and stakeholders about delegation, subsidiarity,</p>		<p>37. suggests, furthermore, that for the Structural Funds a specific early warning scheme should be set up in all regions to build on the existing relationship, where the European Commission advises managing authorities as to the rate of spend and potential for de fffcommitment if the rate of spend and results do not meet agreed targets;</p>

	<p>65. stresses that the effectiveness and efficiency of cohesion policy hinge on striking a balance between the simplicity and efficiency of procedures and financial management in order to make cohesion policy more user-friendly and transparent. Recognising the full powers of the regions in the management and control of the regional operational programmes would form part of this balance. Furthermore, the Committee of the Regions should put forward solutions aimed at further simplifying the rules on both the implementation of the funds for the managing authorities, and on obtaining funding for the beneficiaries. It also calls on the Commission to explore further the issue of simplification, with a view, inter alia, to reducing the time period for reimbursement for the beneficiaries;</p> <p>71. regrets that the Commission has not made any proposal to simplify revenue-generating projects; the complexity of the method of calculation for such projects seems counterproductive and discourages potential project promoters. The Committee also encourages the Commission to simplify and speed up the approval system for major projects</p>		<p>simplification, eligibility and new evaluation indicators, possibly via web-based interactive communication tools;</p>		
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ⁱ See: CdR 159/2010 fin, p.3.

ⁱⁱ See: European Parliament, Position paper on the future of cohesion policy, Committee on regional development, July 2010.

<http://www.europarl.europa.eu/document/activities/cont/201009/20100901ATT80888/20100901ATT80888EN.pdf>

ⁱⁱⁱ See: Council of the European Union, (2011), Note on the Proposal for a Regulation of the European Parliament and of the council on the financial rules applicable to the annual budget of the Union, May 2011, p.2.

^{iv} See: COM (2010) 815 final, Recital 8.

^v When auditing the accounts of EU Institutions, the Court of Auditors accepts, under the current system, an error rate of 2% for all policy areas. However, as risk varies between the activities managed and the complexity of projects implemented, the Commission has asked to set reasonable benchmarks against which to judge its management of risk in line with a cost-benefit analysis. The Discharge Authority has therefore invited the Commission to present tolerable risk proposals for all areas of the budget.

See: COM (2010) 261 final.

^{vi} See: COM (2010) 815 final, Recital 16 .

^{vii} See: CdR 318/2010 fin, p.8.

^{viii} The introduction of lump sums and flat rates calculated on the basis of standard scale of unit costs is part of the shift towards a more results-oriented strategy. It intends to simplify the calculation of costs of a given project and to reduce the administrative burden of beneficiaries. However, the Commission does not clarify in its proposal how lump sums, which consist of one-time payment of money instead of a series of payments, and flat rates, which are calculated on the basis of standard scale of unit costs instead of real costs, will be concretely implemented and calculated.

^{ix} See: European Commission, (2009), Opinion of the High Level Group on Administrative Burden Reduction; priority area *Cohesion Policy*.

^x This High Level Group was set up to advise the Commission with regard to the Action Programme for Reducing Administrative Burdens in the EU, and in particular to provide advice on administrative burden reduction measures.

^{xi} The act analysed by the High Level Group was Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds ('General Regulation').

^{xii} See: COM (2011) 615 final, p.8.

^{xiii} See: COM(2011) 615 final), p.46-47.

^{xiv} These thematic objectives are: (1) strengthening research, technological development and innovation; (2) enhancing access to and use and quality of information and communication technologies; (3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and fisheries and aquaculture sector (for the EMFF); (4) supporting the shift towards a low-carbon economy in all sectors; (5) promoting climate change adaptation, risk prevention and management; (6) protecting the environment and promoting resource efficiency; (7) promoting sustainable transport and removing bottlenecks in key network infrastructures; (8) promoting employment and supporting labour mobility; (9) promoting social inclusion and combating poverty; (10) investing in education, skills and lifelong learning; (11) enhancing institutional capacity and an efficient public administration.

^{xv} It is worth noting that this number is quite low. The participation of Public Authorities came third, after those from citizens and organisations.

^{xvi} In the previous EU Financial Regulation, the Commission offered the possibility to split the grant selection process into 2 steps so as to only invite the applicants most likely to be successful to submit a full application. The Commission admits that this possibility reduced work for applicants but increased the duration of the application process.

^{xvii} See: COM (2011) 615 final, p.168.