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IMPACT ASSESSMENT REPORT

Accompanying the document

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

establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509

{COM(2025) 565 final}

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1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT

1.1. Political context

As highlighted in the relevant evaluations, the complexity of the funding architecture is a major factor hindering the implementation of the current and previous EU programmes, limiting their impact. Currently, many programmes may finance the same activities, but without the same rules and conditions and there is insufficient flexibility to respond to unforeseen needs. This leads to inefficiencies and administrative burden for beneficiaries, Member States and the Commission. In addition, the start of NextGenerationEU repayments, the increasing number of EU priorities and the tight fiscal situation of Member States all reinforce the need to reduce identified inefficiencies and administrative burden.

The Political Guidelines acknowledge that '*our spending is spread over too many overlapping programmes – many of which fund the same things but with different requirements and difficulties to combine funding effectively'.* The Guidelines set out that the new long-term budget needs to be more focused, simpler, with fewer programmes and more impactful.

In line with the Political Guidelines, the College adopted on 11 February 2025 the Communication '*The road to the next multiannual financial framework*', which states that *'the next long-term budget will have to address the complexities, weaknesses and rigidities that are currently present and maximise the impact of every euro it spends'.* The Communication also underlines that flexibility is key in guaranteeing the budget's ability to respond to a changing reality.

In this political context, impact assessments for programmes under the next multiannual financial framework focus on how to streamline the architecture of the EU budget, thereby assessing the most important policy choices underpinning the legislative proposals for the future EU programmes. Policy aspects are considered in the analysis of the context, the problem definition and the objectives, which inform the choices on the programme architecture. Given that the architecture of the new multiannual financial framework will differ significantly from the current one, assumptions on the budget of each programme would be unreliable at this stage. Therefore, the impact assessment does not include funding scenarios and, consequently, only qualitative cost benefit analysis is possible.

This reflects the specificities of this exercise, clearly acknowledged in Tool #9 of the Commission's better regulation toolbox which states that *'the special case of preparing a new multiannual financial framework is a unique process requiring a specific approach as regards scope and depth of analysis'*.

1.2. Scope of this impact assessment

EU funds with nationally pre-allocated envelopes[1] have crucially supported the delivery of key EU Treaty objectives – from economic, territorial and social cohesion to ensuring a fair standard of living for the agricultural community or creating an Area of Freedom, Security and Justice. The policy challenges that prompted the creation of these instruments remain relevant in today's world, while new challenges arising from recent geopolitical shifts have also emerged. The next multiannual financial framework is a golden opportunity to facilitate the delivery on the policy objectives of the EU and its Member States, since desired synergies and results are unlikely to materialise without the alignment between the policy objectives and financial architecture. In this light, in the Communication on the road to the next MFF, the Commission has suggested a new approach to the budget with, at its core, a plan for each Member State linking key reforms with investments, and focusing on our joint priorities, including promoting economic, social and territorial cohesion.

Currently, there are over 10 EU funds that are predominantly pre-allocated, accounting for more than 2/3 of the EU budget, and which are assessed as part of this impact assessment:

- In the area of cohesion policy: Cohesion Fund, European Regional Development Fund, European Social Fund+, the Just Transition Fund.
- In the area of common agricultural policy and fisheries: European Agricultural Guarantee Fund, European Agricultural Fund for Rural Development, European Maritime, Fisheries and Aquaculture Fund.
- In the area of home affairs: the Asylum, Migration and Integration Fund, the Border Management and Visa Instrument and the Internal Security Fund.
- The 2021-2027 long-term budget also introduced the Brexit Adjustment Reserve over and above the MFF ceilings and, with NextGenerationEU, the Recovery and Resilience Facility.
- Outside the multiannual financial framework or the EU budget, there are the Social Climate Fund (from 2026) and the Modernisation Fund.

Since the transport envelope of the Connecting Europe Facility benefits from a transfer from the Cohesion Fund, it is also included in the scope of this impact assessment, together with the energy strand – while the digital strand is assessed as part of the impact assessment on the European Competitiveness Fund. A part of the LIFE programme is also included in this impact assessment, given that funding under the nature and biodiversity strand of LIFE budget is mainly pre-allocated to Member States. Annex 6 provides a more detailed description of the scope of this impact assessment.

2. PROBLEM DEFINITION

Figure 1 visualises the relevant problems, underlying problem drivers and consequences:

[1] Spending programmes in the EU budget can be divided between those that have nationally pre-allocated envelopes and those that do not. Nationally pre-allocated envelope refers to amounts in EU funds that are earmarked predominantly for the use by a given Member State..

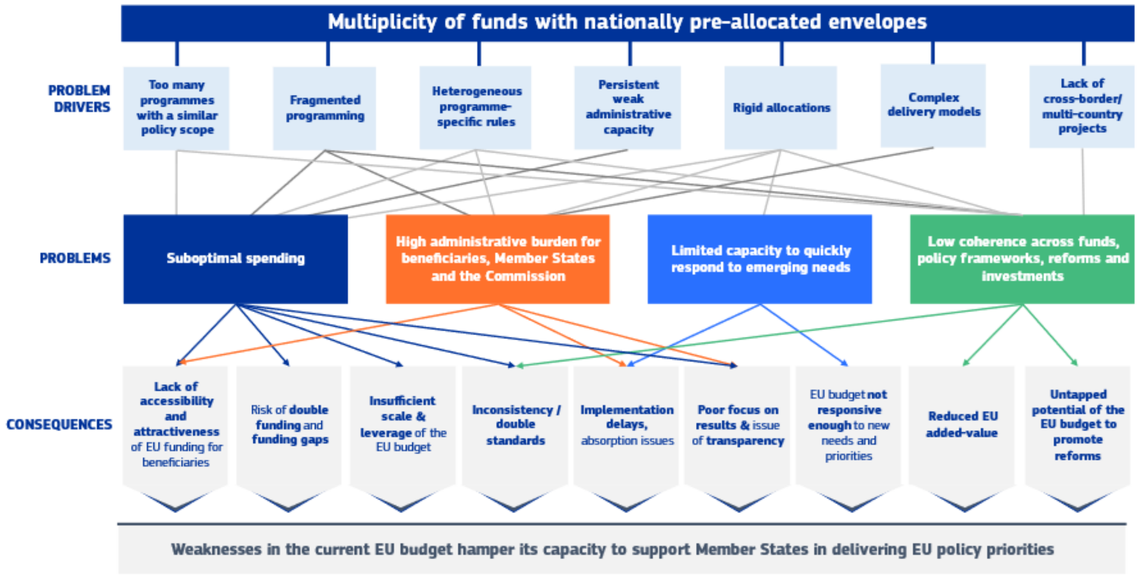

Figure 1: Problem tree

2.1. What are the problems?

2.1.1. Problem 1: Suboptimal spending

The fragmentation of nationally pre-allocated envelopes into many programmes with different rules creates inefficiencies both between programmes and between different layers of implementation.

Fragmentation increases the risk of duplication and overlaps between programmes targeting the same policy objectives. This can even create substitution effects. For example, the mid-term evaluation of the Recovery and Resilience Facility (RRF) pointed to risks of substitution effects generated by the RRF to the detriment of cohesion policy concerning the 2021-27 programmes. In Member States such as Spain, Greece, Italy and Romania, some more mature projects that were planned under the CEF or cohesion instruments (and expected to be implemented under 2021-2027 cohesion programmes) were moved into the national recovery and resilience plans (RRPs). Substitution effects can be partly explained by the RRF being created as an emergency instrument, after the comprehensive set of funding instruments for the current MFF were already agreed. On the other hand, duplications increase the risk of double funding, which the co-existence of different rules and cost-based and performance-based delivery models makes harder to detect[2].

Fragmentation also prevents the efficient pooling of resources to support EU strategic investments. The work leading to the adoption of the Strategic Technologies for Europe Platform (STEP) showed that, while many EU funds with nationally pre-allocated envelopes and as well as directly managed ones support EU's strategic technologies, the fragmentation of funding across various spending programmes following different rules prevents the EU budget from reaching sufficient scale because it prevents the effective use of cumulative or combined funding. While the Regulation on the Strategic

[2] ECA Special Report on double funding from the EU budget

Technologies for Europe Platform (STEP) will improve coordination and pooling of resources for strategic technologies until the end of the programming period, more consistency is needed to maximise the use of the EU budget to better achieve key political objectives, avoid funding gaps and reach all relevant beneficiaries.

The fragmented implementation of programmes can also lead to coordination issues between the different levels (EU, national, regional and local) involved in the implementation, undermining the efficient implementation of investments[3]. In cohesion policy funds, implemented via shared management, Member States and the regions are responsible for tailoring their programmes to their needs and priorities (consistent with the legislative framework and the applicable conditionalities). The shared management set-up, together with the application of the partnership principle and multi-level governance, are considered key success factors in ensuring the involvement of relevant stakeholders and social partners as well as ownership throughout programme implementation. While the RRF is implemented under direct management, it relies in many instances on the established structures set out for shared management programmes and the pool of knowledge generated. Nevertheless, in some Member States, complexity and lack of capacity remain major bottlenecks to their effective involvement. On the other hand, under the direct management set-up of the RRF, ownership by regional and local authorities and stakeholders can be weak and their involvement in the planning and implementation stages of the RRPs insufficient.

Furthermore, resources are not always allocated where they can achieve the best results, based on Member States and regions' needs and EU policy priorities. For instance, while it is still too early to quantify impacts of the new CAP given that its implementation only started in 2023, evidence collected so far confirms that the CAP has contributed to increasing farmers' income over time and efforts have been put to increase the fairness of income support towards smaller farms, however disparities with other economic sectors and within the farming community still remain large. This also means limited attractiveness of the sector for future generations. As underlined in the report of the Strategic Dialogue on the future of EU agriculture, while basic income support remains the most funded CAP measure, it is not sufficiently targeted to socio-economic needs of farmers.

Likewise, even though cohesion policy has successfully contributed to upwards social and economic convergence, gaps remain. Regions at different levels of development experience economic stagnation and some have fallen into a development trap[4]. Regions are also unevenly equipped to cope with emerging and transition challenges. In addition, an overreliance on grants may lead to "crowding-out" effects and sub-optimal investment. In a context of budgetary constraints, financial instruments are a complementary form of support to grants, whose use can help achieve the desired leveraging effects, including the private sector participation, and enhance the effectiveness of the EU budget. However, their uptake remains limited – with only 6% of total resources of cohesion policy for the 2021-2027 period channelled through financial instruments. There is therefore a need to reflect on how to optimise the use of EU

[3] For example, the preliminary findings of an audit of the European Court of Auditors on EU budget's support to integration found that the coordination between AMIF and ESF+ was still limited – despite bringing AMIF under the umbrella of CPR coordination.
[4] COM(2024) 149 final - Communication on the 9th Cohesion Report

funding, tailored to the specific regional needs, and provide EU added value compared to national spending.

2.1.2. *Problem 2: High administrative burden for beneficiaries, Member States' authorities and the Commission*

Managing close to 540 EU programmes with nationally pre-allocated envelopes, subject to different rules, delivery models and management modes, is complex and costly for Member States' authorities, beneficiaries as well as for the Commission. National and regional authorities need to manage different funds in parallel[5]. This can create implementation issues, as currently experienced by all EU programmes with nationally pre-allocated envelopes (albeit to a different extent).

The programming of EU funds in the 2021-2027 period was subject to delays, in part due to complexities and in part due to COVID-19 and the creation of the RRF, where Member States chose to focus their limited administrative capacity into preparing the RRPs before the other new programmes funded by nationally pre-allocated envelopes.

The efforts to simplify in the current programming period have not always delivered the anticipated results. For example, while Member States have overall welcomed the move towards strategic planning in the CAP, they find the CAP Strategic Plans still too detailed and complex to implement and request that their design and implementation is further simplified. Likewise, while the merger of different funds under ESF+ has produced efficiency gains – e.g. streamlined programming and implementation rules, fewer programmes under shared management and less indicators used for monitoring and reporting –, stakeholders consider that the programming process and documents could still be further simplified[6]. The relative novelty of the RRF's performance-based delivery model also created some implementation challenges. Some Member States found the definition of milestones and targets too detailed, the fixed composition of groups of milestones and targets for each instalment too rigid and the process for revising the plans too burdensome – causing implementation delays and administrative burden for all parties involved. The combination of national, Commission and ECA audits also creates administrative burden [7].

Access to EU funding remains complex. For example, despite the progress made to simplify the delivery model of the CAP, beneficiaries still find the system too complex[8]. In response, the Commission initiated a simplification exercise during the current programming period. Overall, administrative burden is undermining the attractiveness of the EU budget and could prevent funding from reaching those beneficiaries needing support the most, as they may not have the expertise and resources required to navigate a complex financial landscape.

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[5] For example, managing authorities dealing with home affairs funds often complain that managing three relatively small national programmes stretches their already limited capacity.
[6] ESF+ mid-term evaluation [upcoming]
[7] RRF mid-term evaluation
[8] Study on simplification and administrative burden for farmers and other beneficiaries under the CAP | EU CAP Network

2.1.3. Problem 3: Little capacity to quickly respond to emerging needs

While the EU budget is predominantly an investment budget, spending programmes with nationally pre-allocated envelopes have proven their added-value in supporting the EU's response to crises such as the COVID-19 pandemic, Russia's war of aggression against Ukraine, or climate-related events[9]. As these flexibilities were not embedded in the design of these programmes they had to be created ad-hoc, through legislative changes to the Common Provisions Regulation (CPR) and fund-specific regulations[10]. Although this process has since been simplified, certain governance difficulties persist. While amending the CAP Strategic Plans or cohesion policy programmes does not require a Council decision, the process is also considered complex by Member States.

Additional resources to mitigate the impact of a crisis or to cater for new policy priorities have often come from budgets intended for structural objectives. The past years have therefore exposed a trade-off between the Union's capacity to react to emergencies in a context of limited resources and the ability to deliver on mid-to-long-term priorities. The creation of reserves such as Emergency Assistance under the Thematic Facilities in the Home Affairs Funds, the CAP agricultural reserve or the flexibility reserve for cohesion policy programmes have provided additional room of manoeuvre to address crises and new needs. However, as these reserves could not always cope with competing crises and new priorities, special instruments at the level of the MFF have often had to be mobilised. Member States and stakeholders alike call for a more flexible budget, able to respond to new needs and emerging priorities throughout the programming period. This flexibility should not put at stake the predictability of EU funding, which is needed to run long term investments and secure the necessary funding for key long-term priorities.

2.1.4. Problem 4: Low coherence across funds, policy frameworks, reforms and investments

As recognised in the 9th cohesion report, reforms are needed to create an enabling environment, amplifying the impact of investments by addressing bottlenecks to growth and convergence. For example, the recent experience of the RRF has shown for example that SMEs have benefited from a wide spectrum of reforms, from reforms improving the business environment and reducing red tape to reforms supporting the digitalisation of public administration – which have, as a result, strengthened SME's place in the economy. Likewise, reforms are also an important tool to enable but also give scale to individual projects – for example, reforms in public procurement and permitting are important to align the regulatory framework between Member States and hence enable the delivery of cross-border projects. Furthermore, reforms can also play a crucial role for mainstreaming and capitalising on the results of EU funded projects, for instance in the area of human capital.

For example, the support to new farmer generations promoted under the CAP is intrinsically linked to Member States' responsibilities to put in place the right conditions to access the land market. In this context, despite the effort done by the CAP to enhance

[9] With key initiatives including the Coronavirus Response Investment Initiative (CRII), Security Action for Europe (SAFE) or the recent RESTORE proposal – as well as catering for new priorities (e.g. STEP).
[10] RRF mid-term evaluation

generational renewal, provisions put in place at national level have not always provided the right incentives, limiting the impact of EU support. Yet, Member States face difficulties implementing much needed reforms, because they come with a high political, social or economic cost or because of a lack of technical know-how.

Over the years, the concept of "reform" has been interpreted in various ways across EU programmes with nationally pre-allocated envelopes, leading to diverging approaches in how a reform is defined, if and how the EU budget is used to incentivise it and the results achieved on the ground. Furthermore, scattering funding for reforms across many funding streams may lower the attractiveness – and hence effectiveness – of reforms efforts. Overall, fragmented approaches prevent from making full use of the size of the EU budget as an incentive for reforms that contribute to Union objectives.

Relying on multiple policy documents and analytical tools to inform the programming of investments and reforms exacerbates the lack of policy coherence between funding instruments as well as between the EU-level policies and national and regional ones. The European Semester has increasingly been used as a policy reference framework for the programming of EU funding. Its link with cohesion policy funding has strengthened over time, enabling to better steer the programming of cohesion policy resources towards development challenges. The RRF has gone even further by requiring that the national RRPs address all or a significant subset of the Semester country-specific recommendations. However, other programmes rely on other documents to steer programming[11]. With different timelines and institutional frameworks, the multiplicity of reference documents complicates the identification of reforms and investments that would best contribute to the EU's policy priorities.

Likewise, while the conditionality mechanisms have demonstrated the power of the EU budget for triggering changes within Member States in the Rule of Law and other fundamental rights areas, the current legal framework – with multiple programmes following different rules – is complex and brings additional burden for managing authorities and the Commission. It could also encourage "programme-arbitrage" whereby Member States with particular issues could be tempted to shift some investments between programmes to avoid being subject to a particular condition if the investment in question can be implemented under several programmes. Meanwhile, the Modernisation Fund, which is not part of the EU budget, is not subject to any rule of law requirements nor the Conditionality Regulation.

2.2. What are the problem drivers?

Annex 7 provides further analysis supporting the identification of problem drivers.

2.2.1. Problem driver 1: Some programmes overlap or have a similar scope

EU funds with nationally pre-allocated envelopes often target similar policy areas, territories and sectors. The policy objectives of the various funds can at times be overlapping. For instance, to finance basic and advanced digital skills, beneficiaries can

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[11] For example, the CAP relied on ad hoc Commission CAP Recommendations, while the Border Management and Visa Instrument (BMVI) refers to the Schengen Recommendations adopted by the Council.

receive funding from six EU programmes with nationally pre-allocated envelopes[12] as well as other programmes without nationally pre-allocated envelopes[13]. At the same time, better synergies between EU funds to deliver on complex problems, requiring comprehensive approaches – for instance, when it comes to enhancing the attractiveness of rural areas, which requires support to farmers (supported by the CAP) but also investments in education, infrastructure or healthcare (mainly supported by cohesion).

There are also synergies between the CAP, especially some interventions under the EAFRD, and cohesion policy when it comes to supporting investments in rural areas (especially beyond farming or food production) as illustrated below:

- Non-productive investments on farms can help farmers improve environmental performance by restoring agro-ecosystems or integrating landscape elements in their fields. Cohesion policy may support similar projects, also outside the remit of agriculture and agricultural production i.e. nature conservation, reforestation, wetland restoration, and rehabilitation of degraded landscapes to enhance biodiversity, tourism or other economic activities etc.

- The EAFRD can support on-farm productive investments such as renewable energy installations in farms. Similarly, cohesion policy may support the installation of solar panels including in small businesses in rural areas and projects to reduce energy costs.

- The EAFRD also supports off farm investments in rural areas, however these account for less than 6% of the EAFRD budget. As both the EAFRD and cohesion policy funds intervene in rural and remote areas including for support to smaller businesses, both the area of intervention, the target groups and the objective for development/diversification are similar, however differences exist in the specific targeting of the support.

2.2.2. Problem driver 2: The programming of EU funds with nationally pre-allocated envelopes is too fragmented

Nationally pre-allocated envelopes cover several EU funds, and while some multi-programmes exist, each of the funds in most cases involves several sets of programmes. For instance, cohesion policy involves the ERDF, CF, ESF+ and JTF and is implemented through 27 high level ‘partnership agreements’ and more than 300 programmes. Overall, EU funds with nationally pre-allocated envelopes are implemented through close to 540 programmes – with the 27 social and climate plans to be added as of 2026.

Fragmentation can lead to a sizeable lag between the preparation of the financial framework and its implementation. In the 2021-2027 programming period, the late adoption of the sectoral legislation and the lengthy process to adopt programming

[12] The Just Transition Fund (JTF), the European Regional Development Fund (ERDF), the European Social Fund+ (ESF+), the European Maritime, Fisheries and Aquaculture Fund, the European Agricultural Fund for Rural Development (EAFRD) and the RRF).

[13] Such as Erasmus+, the Digital Europe Programme, Horizon Europe, InvestEU and the Technical Support Instrument.

documents led to delays in implementation. For instance, two-level programming in cohesion policy lasts on average 18-24 months. While slow programme implementation may result in higher outstanding commitments and higher risk of decommitments, it also raises issues of coherence, as policy priorities shift over time.

The programming of EU funds with nationally pre-allocated envelopes can be further simplified. Member States have overall been supportive of the move towards single programming in the CAP but call for further simplification. Many find the Strategic Plans too detailed and have complained – for example, the Spanish CAP Strategic Plan is over 3,000 pages long. Furthermore, Member States have also complained that the procedure for amending them is too complex. At the same time, there is a strong call from stakeholders, including Member States, for stability and predictability and to build on the efforts already made to adjust to the current delivery model.

The mid-term evaluation of the RRF highlights that combining reforms and investments boosts their effectiveness. Appropriate sequencing between reforms and investments ensures that prior reforms amplify the impact of subsequent investments. Moreover, synergies between reforms and investments can more easily be exploited where their implementation is coordinated in an integrated manner. However, given the national legal framework and the fast pace in designing RRPs in a crisis context, local and regional authorities and relevant stakeholders, including social partners, pointed to their insufficient involvement in the design, implementation and monitoring of the included measures.

2.2.3. Problem driver 3: Heterogeneous programme-specific rules may lead to a suboptimal use of resources

Diverging co-financing rates, eligibility rules, or asymmetric conditionality mechanisms can lead to a suboptimal use of nationally pre-allocated envelopes. Heterogeneous programme-specific rules not only create confusion, but also encourage competition between programmes, as project promoters seek out programmes with the less stringent criteria and/or less complex procedures[14]. While rationalisation and streamlining efforts were made in this current MFF[15], challenges remain.

Bringing the European Agricultural Guarantee Fund (EAGF) and the EAFRD under the same umbrella has allowed for strategic planning and the harmonisation of management and control rules for both pillars of the CAP. However, removing the EAFRD from the CPR has made establishing synergies with other EU funds more challenging, for example in the context of community-led local development approaches in rural areas (LEADER), where implementing integrated, multi-funding approaches require considerable coordination efforts among administrations.

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[14] It is not only at EU level that rules are complex: as shown by the forthcoming ESF+ mid-term evaluation, additional requirements set up at (sub-) national level can further increase the administrative burden on managing authorities and beneficiaries.

[15] For instance, bringing the three home affairs funds – AMIF, BMVI, ISF – under the CPR umbrella has allowed them to benefit from the experience and best practices of cohesion policy funds (e.g. use of simplified cost options, flexibility in programme amendments, single audit principle). However, it has also come with challenges as national authorities have had to set up new management and control systems for the Home Affairs Funds.

While the fragmentation of the EU's funding landscape has led to the need to combine different funding, this remains very challenging. Several factors complicate the process, including varying administrative and legal requirements; legal and financial incompatibilities; different eligibility criteria; possibly different State aid exemptions; unsynchronised timelines; and the lack of experience of managing authorities. Combining funding from performance- and cost-based instruments is especially challenging, since it is difficult to clearly demarcate the respective costs/results.

2.2.4. Problem driver 4: Persistent weak administrative capacity and governance at national, regional and local levels

Institutional capacity and the regulatory environment are a decisive factor for the successful implementation of EU funds. Regions with stronger institutions are usually better at implementing projects, managing funds and adapting to change. As emphasised in the Letta report, addressing the disparities in technical and administrative capacities among the Member States is essential for ensuring a level playing field within the Single Market. Investments must therefore be accompanied by administrative capacity building and targeted reforms, including at subnational level.

The EU budget has consistently supported the strengthening of Member States' administrative capacity. It has done so through technical assistance for national and regional authorities in a shared management context; technical support directly provided by the services of the Commission or via implementing partners; project level advisory support which also supports private project promoters; and technical assistance envelopes put at the disposal of the Commission's services themselves for the management of the funds. Yet, administrative capacity at national, regional and/or local level often remains weak. Recent reports[16] highlight that the administrative capacity and quality of institutions in beneficiary countries remain significant barriers to recovery efforts, national and regional resilience, and overcoming development traps. From this perspective discontinuing support for the objective of public administration reforms under cohesion policy in 2021-2027 created some gaps for funding. Beyond the formal involvement of regional and local authorities, quality data at regional/local level is also important to ensure their meaningful involvement in the programming and implementation of EU funds.

Diverging rules across programmes make it more difficult for administrations to understand and access the available technical support. While the demand-driven nature of technical support requests from Member States may weaken the link with EU priorities, it is also hard to follow-up on the results and complete reforms efforts – for instance, in the event of changes in Member States or regions' administrations.

2.2.5. Problem driver 5: Budgetary allocations can lead to rigidities.

Different factors influence budgetary allocations and their use. Neither geographical nor thematic concentration requirements are being assessed in this Impact Assessment. For example, the level of development of regions, along with other indicators, plays an important role in the allocation of cohesion policy funding to ensure that resources are available for long-term investment and are concentrated on areas of greatest need.

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[16] Including the 9th cohesion report and the RRF mid-term evaluation

EU cohesion policy categorises regions for funding based mainly on GDP per capita, creating three main categories: less-developed, transition, and more-developed regions. As a result, most of the funds are targeted in less developed regions with a GDP per capita under 75% of the EU average. This approach is broadly supported by stakeholders and consistent with TFEU (Article 174).

Today, 120 million EU citizens live in regions with an average GDP per capita below 75% of the EU average; 60 million people live in regions with GDP per capita lower than in 2000, and 75 million people live in regions with near-zero growth. Overall, one third of the EU population lives in places that have slowly fallen behind. Economic activity has become increasingly concentrated in major urban areas, while many regions – often caught in development traps from which escaping is difficult – are stagnating.

A system which, as currently, identifies three categories of development, is underpinned by the principle that funding allocated to a specific category of regions must be used for the benefit of that category (with some flexibilities). It helps ensuring an alignment between EU spending for territorial cohesion and EU policies and provides a more long-term framework for public investment, notably in less developed regions which can incentivise private investment; also reflecting solidarity between all EU regions, which is especially imperative when people in those regions feel increasingly left behind.

Other requirements are imposed via thematic concentration mechanisms. For broad and common challenges and EU policy priorities, these requirements have proven useful to ensure cohesion policy funds contribute to specific policy objectives. Therefore, it could be an important tool to increase the leverage of the EU budget and align it with European strategic interests. However, concentration requirements can also lead to rigidity in programming and reduce budgetary flexibility in times of evolving priorities and emerging crises. In addition, the monitoring of the requirement and the mechanisms put in place to ensure the achievement of these requirements can be an administrative burden. Therefore, there is a policy trade-off between flexibility and the need to target specific EU policy priorities.

Most EU funds allocate national envelopes upfront at the start of the programming period. This leaves little room to allocate funding to account for new needs (without reopening the regulatory framework) or to those Member States achieving better results. Efforts have been made in the current programming period, but the approaches diverge across funds[17] . The lack of budgetary reserves at programme-level also limits the room of manoeuvre at EU level to address new needs. In this regard, the three Thematic Facilities under the home affairs funds are an innovation, with their multiannual scope, mix of actions and because they combine all three management modes. Yet, increased flexibility has also been coupled with higher administrative burden in the implementation of the Facilities. The agricultural reserve is one of the main novelties of the current CAP and has empowered the Commission to provide additional support to farmers in the event of foreseen crises. While Member States agree on the need for better crisis management, many call for a stronger focus on prevention and for more transparent criteria in the management of the agricultural reserve. The present system of geographic allocations

[17] For example, the mid-term review of cohesion policy seeks to cater for Member States' new needs but without reallocating funding across Member States, while the mid-term review of the home affairs funds aims to provide additional funding to Member States taking into account changes in needs

across the three categories of regions has also been made more flexible in the 2021-27 programming period by permitting the transfer of a share of resources from less-developed regions to other regions, with one Member State fully exploiting this flexibility thus far.

The transfer of resources between CAP funds or among cohesion funds is working well, but there is little appetite for transfers to other EU programmes. This is the case, even if these share similar policy objectives or concern policy areas with higher needs. Finally, although financial instruments help trigger investments for revenue-generating and cost-saving activities, their uptake remains limited.

2.2.6. Problem driver 6: The delivery models are too complex

Currently, most EU funds with nationally pre-allocated envelopes reimburse Member States on the basis of beneficiaries´ expenditure. Relying on real costs brings complexity and burden for Member States' authorities and beneficiaries and is also more prone to errors. Furthermore, the focus is on managing invoices rather than the results achieved by EU funding. The use of simplified cost options (SCOs)[18] – unit costs, lump sums and flat rates – has increased but remains limited, while the use of financing not linked to costs (FNLC) remains sporadic[19]. Overall, the managing authorities' lack of experience and/or capacity, coupled with the difficulties in accessing relevant, quality data to define the appropriate performance indicators, continue to be seen as bottlenecks in implementing simplified forms of funding. Time constraints related to implementation of parallel EU funds and programmes and divergent legal interpretations among relevant actors – from the Commission to Member States' managing authorities or the European Court of Auditors – further complicate their uptake. This might be particularly challenging for regional and local authorities with limited administrative capacity, whose involvement is however important for the successful implementation of funding under shared management. Support for institutional and administrative capacity is needed to ensure successful implementation.

The Common Agricultural Policy has moved closer to a performance-based delivery model, whereby all interventions are planned ex ante and linked to specific outputs and results indicators in the CAP Strategic Plans. At the same time, it retains elements of a cost-based delivery model, whereby the amounts reimbursed are the actual costs incurred by Member States when reimbursing beneficiaries. While the move towards a more performance-based delivery model has been welcomed by stakeholders, it came with high transition costs and did not always translate into simplification for

[18] Unit costs and lump sums retain a link to costs of the particular action because the amounts are calculated ex-ante as an approximation of the actual costs. However, these costs are not checked afterwards, and the pre-defined amount is paid once the output is delivered. The impact on performance is indirect, driven by simplification – instead of managing invoices, beneficiaries can focus on the implementation of investments. The ESF+ is the frontrunner in the use of SCOs, with some 40% of the 2021-2027 budget implemented through SCOs and FNLC at the time of writing.

[19] Under FNLC, payments are conditional upon the achievement of results and the fulfilment of conditions. Despite the simpler payments and delivery it offers, only 12 FNLC schemes (mostly in the ESF+) have been approved by the Commission in 9 Member States.

Member States authorities or farmers[20]. To address these concerns, the Commission has launched a simplification exercise, with packages of legislative and non-legislative initiatives adopted in 2024 and 2025.

The RRF has shown that a performance-based delivery model can trigger faster disbursements to Member States and ensure better value for money. The fulfilment of milestones linked to reforms – which do not necessarily involve costs as such – also impacts the level and timing of disbursements that have been negotiated with Member States with the view to provide a strong incentive to frontload reforms. While subsequent revisions of the plans made milestones and targets more focused and simpler to implement, and the broader use of partial suspension mechanisms improved the delivery model's flexibility, these adjustments came at a high resource cost, and significant challenges persist. Moreover, in most Member States, the disbursement from Member States' authorities to beneficiaries for measures supported by the RRF in the Member States is almost exclusively done based on expenditure which strongly limits the simplification for beneficiaries.

2.2.7. Problem driver 7: Low uptake of cross-border and multi-country projects

Cross-border projects

Cross-border projects[21] and projects of high EU relevance are key to ensuring connectivity and coherence across the Union and to fully reap the benefits of the Single Market. While EU programmes with nationally pre-allocated envelopes support a considerable amount of the latter, the uptake of genuine cross-border projects remains low. While cross-border projects create significant positive externalities and foster solidarity, they also entail specific challenges for project promoters, due to their multi-jurisdictional nature and coordination issues. The unequal distribution of project benefits and project costs between the different Member States concerned makes it more difficult to finance these projects from national funding sources alone.

The resulting market failures, whereby positive externalities of cross-border investments are not considered in public or private investment decisions, calls for an intervention at the EU level. To overcome this, the directly managed CEF programme focuses on projects which bring large benefits to the EU as a whole, but whose commercial cost-benefit ratio tends to be low or whose costs and benefits are unevenly distributed across borders. One key success of the CEF has been the creation of integrated management structures between different Member States (from regional groups to joint ventures or a bilateral legal framework) to facilitate coordination in the implementation of complex cross-border projects.

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[20] For instance, Member States still need to ensure the regularity and legality of EU funds spending at beneficiary level. The challenge has been even greater for regionalised Member States who needed to redefine the cooperation mechanisms between the regional and national levels.

[21] Cross-border projects are those aiming to link two or more Member States' infrastructure (for instance, a railway link, an electricity interconnector, a terrestrial or submarine cable or IT systems).

Multi-country projects

"Multi-country projects" aim to foster cross-border cooperation between Member States' authorities or project promoters from different countries. They serve to jointly tackle common challenges and find shared solutions in fields such as health, environment, research, education, transport, sustainable energy and more. For instance, HOME funds promote cross-border cooperation through transnational cooperation networks for visa processing and joint operations in relation to terrorism and organised crime. Multi-country projects also support environmental protection, as they often involve the conservation of natural areas that span national borders (e.g. transnational species populations or managing Natura 2000 sites).

Important Projects of Common European Interest (IPCEIs) are of a strategic importance for the Union and thus bring a very high EU added value. The mid-term evaluation of the RRF showed that the Facility helped increase the number of Member States participating in IPCEI projects (in particular for hydrogen, microelectronics and connectivity), including several in Central and Eastern Europe, which would not have participated otherwise. However, there is still scope for improvement to ensure coherence in procedures when IPCEI projects are funded via shared management funds and to avoid duplication in assessment and delays in procedures and for the Commission to play a more proactive coordination role[22].

Interreg

Interreg helps overcome border obstacles and capitalise on border opportunities, such as the establishment and improvement of public transport links and services or the setting up of joint facilities (e.g. waste management plants, healthcare infrastructure). In addition, Interreg plays a crucial role in building trust and bridges with third countries, such as Ukraine, Moldova, Georgia and those in the Western Balkans, fostering cooperation and cohesion beyond EU borders. However, several challenges need to be addressed – including the limited integration within national/regional programmes, administrative and legal barriers, and the need to tailor approaches to diverse border contexts and policy frameworks. Evaluating project impact and ensuring long-term sustainability are also significant hurdles, particularly after funding ends.

2.3. How likely is the problem to persist?

2.3.1. Problem 1: Suboptimal spending

Without changes to the EU-level framework, the fragmentation of nationally pre-allocated envelopes is likely to continue to lead to suboptimal spending as described above. In the context of national fiscal consolidation, little progress on new own resources for the EU budget and the repayment of the NextGenerationEU borrowing to start as of 2028, the negative impact will even be higher. The policy challenges of the past will remain relevant. At the same time, the Letta and Draghi reports duly underline that new and emerging policy challenges linked to competitiveness, reindustrialisation, demographic decline, defence, climate adaptation and digitalisation, require significant

[22] Through the establishment of the Joint European Forum for IPCEI (JEF-IPCEI) in October 2023 and the newly initiated IPCEI Design Support Hub.

investments. These various factors increase the risk of fragmentation and overlaps if left unaddressed, and hence will make the optimal use of every euro spent by the EU budget all the more important to make sure it is able to support the Union's policy priorities coherently.

2.3.2. Problem 2: High administrative burden for beneficiaries, Member States and the Commission

Without changes to the EU-level framework, the implementation of EU funds with nationally pre-allocated envelopes is likely to continue incurring delays and slow disbursements at the beginning of the implementation period. As a result, there will continue to be a time lapse between the moment EU funding is needed and when it is eventually disbursed. Managing multiple programmes in parallel will also continue stretching Member States and regions' administrative resources. The perspective of enlargement will make administrative capacity all the more important, with (potential) candidate countries and potential candidate countries having to significantly boost their capability to implement EU policies and manage EU funds.

Lastly, the perceived complexity of EU funds could reduce the accessibility and the attractiveness of EU funding for beneficiaries in the future. While the consequences of the latter cannot be determined at this stage, also due to the major role played by national implementing rules, one cannot discard that it could lead to new waves of protests in some sectors such as agriculture, despite the simplification actions already implemented in the current period, or encourage EU companies, SMEs and others to seek funding elsewhere, including outside of the EU.

2.3.3. Problem 3: Limited capacity to quickly respond to emerging needs

As outlined in the Niinisto report[23], the confluence of different risks leads to an increased probability of major cross-sectoral crises, shocks and disruptions occurring simultaneously in the years ahead. Without changes to the EU-level framework, the EU budget will not be equipped to quickly and efficiently address these challenges. Furthermore, the continued use of the ad-hoc mechanisms developed in the current programming period heightens the risk of undermining the delivery of EU's policy objectives in the longer term. Overall, the lack of flexibility could reduce the relevance and added value of the Union's budget for Member States, stakeholders and citizens in general.

2.3.4. Problem 4: Low coherence across funds, policy frameworks, reforms and investments

Without changes to the EU-level framework, EU funds with nationally pre-allocated envelopes would continue to rely on different policy documents and reference frameworks, making it difficult to identify the reforms and investments needs that best serve the Union's objectives. As a result, the gap between the EU policy priorities and what is financed by the EU budget would remain and possibly widen further.

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[23] Report on "Strengthening Europe's civilian and military preparedness and readiness", 5bb2881f-9e29-42f2-8b77-8739b19d047c_en

Furthermore, progress in implementing reforms will most likely remain slow and uneven across Member States. While the RRF has positively impacted Member States' reform efforts, additional reform efforts will be needed to address critical challenges such as low productivity growth or demographic trends, among others. In view of a potentially larger Union in the years to come, an additional emphasis on supporting candidate and new Member States to continue their reform path towards convergence will also be needed. With the end of the RRF in 2026, and in the absence of a dedicated focus on reforms in the next MFF, there would be limited capacity at Union level to incentivise the reform efforts.

3. WHY SHOULD THE EU ACT?

3.1. Legal basis

Article 174 TFEU commits the EU to promote economic, social and territorial cohesion. Articles 176, 177 and 162 TFEU establish the ERDF, CF and ESF respectively and define their respective objectives. Article 38 TFEU empowers the EU to define and implement a common agriculture and fisheries policy. Article 39 TFEU sets the objectives of the CAP, which include the increase of agricultural productivity, a fair standard of living for the agricultural community, stabilise markets, assure the availability of supplies and that these supplies reach consumers at reasonable prices. The Treaties task the Union with the constitution of an area of freedom, security and justice, based on a common policy on asylum, immigration and external border control, a high level of security and no internal border controls for persons.

Article 175 TFEU lists the Structural Funds, which shall support the achievement of economic, social and territorial cohesion – the European Agricultural Guidance and Guarantee Fund, Guidance Section; European Social Fund; European Regional Development Fund. Article 177 TFEU provides that "the European Parliament and the Council […] shall define the tasks, priority objectives and the organisation of the Structural Funds, which may involve grouping the Funds." Furthermore, Article 177 (2) TFEU provides that "a Cohesion Fund set up in accordance with the same procedure shall provide a financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure".

3.2. Subsidiarity: Necessity of EU action

Nationally pre-allocated envelopes play a vital role in delivering on EU priorities across all Member States and regions. Cohesion Policy is a prime example of EU solidarity in action, promoting integration and cooperation among Member States and reducing regional disparities within and between Member States, including between urban, rural, coastal or sparsely populated areas and between Europe's mainland and outermost regions and islands. Cohesion policy funding has triggered investments that would not have materialised with the same scope, ambition and speed if the EU funding was not available[24]. RRF contributes to Member States' and regions' economic and social recovery and resilience, while also accelerating the green and digital transition.

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[24] Ex-post evaluation of the 2014-2020 cohesion policy

The application of common rules linked to CAP funding helps ensure a level playing field among Member States in the agri-food sector. The combination of the CAP policy tools contributes to a fair standard of living for farmers across the EU, guaranteeing food security throughout the Union, enhancing the attractiveness of the sector also for new entrants, and addressing challenges of a cross-border and global nature.

The conservation of marine resources, being an EU exclusive competence, puts a responsibility on the Union in terms of policy making and financing. This requires continued support to provide for the evidence base for conservation measures and management of fish stocks, data collection, and the provision of scientific advice and knowledge, and also to contribute to the implementation of the new Control Regulation.

In the field of home affairs, EU funding helps ensure a common approach when implementing EU acquis and standards, while fostering cooperation across borders in the Area of Freedom, Security and Justice. Given the strong national focus of these policy areas, EU funding is best allocated through nationally pre-allocated envelopes. Support from the EU budget will prove particularly important for the implementation of the Pact on Migration and Asylum and the new Internal Security Strategy.

EU funding is also necessary to uphold EU values and fundamental rights. Without EU involvement, some EU countries might link the promotion and protection of rights and EU values to national political and economic interests. This could create discrimination and inequalities. However, as highlighted in the Political Guidelines, the RRF showed how nationally pre-allocated envelopes can contribute to reforms that strengthen the rule of law.

The transboundary nature and scale of many of the present and future challenges call for EU-level action, including through nationally pre-allocated envelopes. For example, a weak spot in the border of a Member State or a threat posed to one Member State can affect the EU as whole, while a higher level of EU external border security benefits all Member States. Managing the impact of climate change and environmental degradation is another transnational challenge requiring EU-level action[25].

Likewise, defence requires a common response at EU level, including through nationally pre-allocated envelopes. As highlighted by the Communication on the mid-term review[26], cohesion policy is already funding security and defence-related investments contributing to regional development. Defence industries often create research and development and industrial ecosystems which benefit Europe's regions and communities. The territorial focus of the policy is particularly relevant to foster regional synergies and alignment with local strengths.

Furthermore, funding at Union level supports "EU public goods", i.e. strategic policies that are insufficiently prioritised by Member States due to divergent

[25] The combined impacts of climate change could exceed 60% of the EU's GDP by 2080, disproportionally impacting certain Member States and regions, requiring EU action to provide long-term investments to preserve social, economic, and territorial cohesion.

[26] communication-mid-term-review-2025_en.pdf

national interests or market failures, but which bring high EU-wide benefits[27]**.** These include projects benefitting more than one Member State, such as cross-border projects or IPCEIs. For instance, EU funding for cooperation between Member States' law enforcement authorities can improve the exchange of information across borders, thereby contributing to the internal security of the Schengen area. Likewise, by financing cooperation between regions, Interreg programmes strengthen ties between EU regions and local communities and neighbouring countries (including in outermost regions). They also contribute to building good relations between border regions, as illustrated by the emblematic PEACE Programme in Northern Ireland.

3.3. Subsidiarity: Added value of EU action

Allocating EU funding through nationally pre-allocated envelopes ensures that support is focused on the specific needs of each Member State and its regions, while being consistent with EU priorities. As they know the exact needs of their territory, regional and local stakeholders and as such should be involved in the programming of EU funds. At the same time, allocating funding through nationally pre-allocated envelopes can help the EU achieve its policy objectives more efficiently by linking EU funding to reforms. This approach enhances the EU's leverage to encourage and assist Member States in overcoming institutional and regulatory obstacles that hinder the fulfilment of EU policy priorities, including the implementation of the EU acquis. Reforms can also magnify the positive impact of investments, thereby maximizing the value of each euro spent.

EU funding also enables EU-level coordination to address transnational challenges such as military mobility. EU-level coordination is needed to support the development of dual-use transport infrastructure along the four European military mobility corridors endorsed by the EU Military Committee. This is crucial to ensure the large-scale movements of troops and heavy material at short notice, against a background where Member States make individual and selective investments on their national networks, without taking into account the investments made by other Member States.

Finally, modern, efficient and resilient national, regional and local authorities are a pre-requisite for the achievement of Union goals. They play a pivotal role in implementing EU funding and policy priorities, together with non-state actors[28]. Nationally pre-allocated envelopes can provide both with the necessary support to deliver more efficiently on EU common objectives. For example, EU funding delivered through nationally pre-allocated envelopes can also provide technical assistance funding, which is crucial for data acquisition and the developments of tools that support policy implementation.

4. OBJECTIVES: WHAT IS TO BE ACHIEVED?

The intervention logic of this initiative is presented in Figure 2.

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[27] EU public goods can be defined as "policies and initiatives whose value to the citizens are higher when conducted at EU rather than at national level" (Fuest and Pisani-Ferry, 2019). The concept of EU public goods is based on the notion that the EU should only step in when the private sector or Member Sates' budgets fall short of financing goods that would benefit the EU as a whole.

[28] E.g. social partners, consumers and business organisations, non-profit and civil society organisations

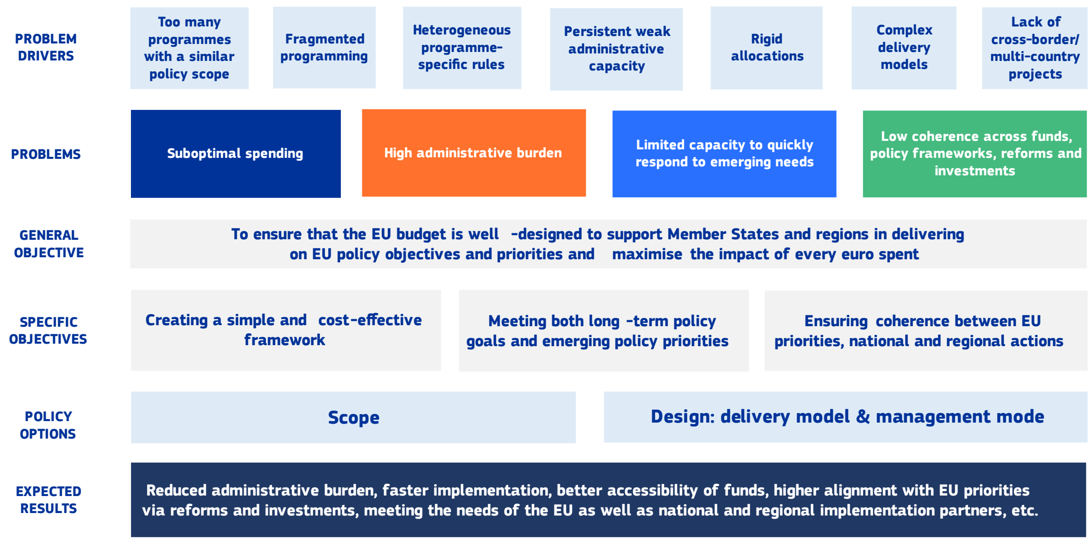

Figure 2: Intervention logic

4.1. General objectives

EU funding alone is not sufficient to fulfil the Treaty obligations outlined in section 3.1. if not accompanied by complementary actions – such as legislative initiatives – as well as funding from other sources – national and private. Considering the above, the focus and general objective of this initiative is **to ensure that the EU budget is well-equipped to support Member States and regions in delivering on EU policy objectives and priorities and maximise the impact of every euro spent.**

4.2. Specific objectives

To address the identified problem drivers, three specific objectives have been set taking into account the Political Guidelines, which call for a more focused, simpler, impactful and responsive EU budget.

Specific Objective 1 (SO1) – Ensuring coherence between EU priorities, national and regional actions. The first objective (linked to Problems 2 and 4) is to align EU funding with key EU priorities, while tailoring EU interventions to Member States' regional and sector specific needs. Nationally pre-allocated envelopes should support investments, reforms and other policy interventions with a strong EU added value, contributing to goals that cannot be achieved as effectively by individual Member States alone. EU support should be adapted to the specific needs of individual regions and sectors, in full respect of Treaty objectives and obligations, while ensuring better alignment between EU/national priorities and funding.

Specific Objective 2 (SO2) – Creating a simple and cost-effective framework delivering on EU priorities. The second objective (linked to Problem 2) is to simplify the implementation framework and reduce the administrative costs for Member States' authorities, the Commission, as well as beneficiaries through a more coordinated, consistent and holistic policy intervention for each Member State and its regions. Simplification should be done in full respect of the partnership principle, which ensures that regional and local authorities, as well as economic and social partners and the bodies representing civil society at large, are involved at all stages of programming and implementation of nationally pre-allocated envelopes.

Specific Objective 3 (SO3) – Meeting both long-term policy goals and emerging policy priorities. The third objective (linked to Problem 3) is to adapt EU funding to changing circumstances and crisis situations in Member States, regions, the Union as a whole or in particular sectors in a more agile way, without compromising long-term objectives and stability and predictability for beneficiaries.

This initiative will be monitored through the performance framework for the post-2027 budget, which is examined in a separate impact assessment.

5. WHAT ARE THE AVAILABLE POLICY OPTIONS?

5.1. What is the baseline from which options are assessed?

Under the baseline, EU funds with nationally pre-allocated envelopes would continue to be governed by separate fund-specific regulations and implemented through different programmes as described in the problem definition. Negotiated between the Commission and each Member State, with involvement of regional and local authorities and relevant partners, the Partnership Agreement would continue to be the overarching strategic programming document which would set the investment priorities for each Member State. It would also continue to include thematic and horizontal enabling conditions that would be the same for all Member States. The scope of the Partnership Agreement would be the same as today (i.e. cohesion and fisheries). The principle of partnership and multi-level governance would continue to apply.

As is currently the case, more detailed programming including the intervention logic would be set out in separate programmes, mainly implemented under shared management. Member States would continue to be free to choose the number of programmes they want, and whether they prefer national or regional programmes (or a combination of both). They would also continue to decide which competent authorities (national/regional) should manage (specific components of) the programmes. This should however not lead to increased fragmentation in those policy areas which have already moved to single programming (such as the CAP or fisheries). Cost-based delivery models would continue to prevail, with the possibility to use SCOs and FNLC forms of funding. Budgetary flexibilities would remain limited, both within programmes as well as between programmes, as outlined in the problem definition.

Cross-border and multi-country projects would continue to be eligible for support under several funds with different rules (direct and shared management).

5.2. Approach of this impact assessment

While regional and territorial disparities have been substantially reduced, including by EU cohesion policies, 29% of EU citizens still live in regions with a GDP per capita below 75% of the EU average and about 135 million people live in places which, in the last two decades, have slowly fallen behind. The current divergent growth trajectories risk widening socio-economic gaps between and within Member States, notably between rural and urban areas.

At the same time, food security and nature protection sustain Europe's quality of life with the Common Agricultural Policy (CAP) able to guarantee that 450 million Europeans have access to safe, high quality and diversified food products at affordable prices. At the same time, the CAP contributes to preserving vibrant rural areas and helps the agricultural sector make significant progress towards sustainability. Yet, long-term risks for food security and the effects of climate change and environmental degradation put the agricultural sector under increasing pressure. In addition, farmers, fishers and rural areas are increasingly affected by unfair global competition, higher energy prices, a lack of younger farmers and fishers and difficulties in accessing capital. For example, despite the substantial support from the CAP, the agricultural income per worker remains volatile and significantly below the average wage in the EU economy (60% in 2023).

War, insecurity, poverty and a lack of opportunities have strengthened migration flows, and the weaponisation of migration at the EU borders has illustrated new forms of threats. At the same time, the global political and economic landscape poses challenges of unprecedented magnitude, with war still raging on the European continent and in its neighbourhood.

While these are only a few of the many challenges faced by our Union, they show the need to improve the design of EU support to best deliver on our shared priorities and common policies and ensure that the EU budget continues to play a key role in supporting fair and inclusive growth, sustainable economic convergence, and security.

In this light, in line with the Political Guidelines, the Commission's Communication on the road to the next MFF suggested a new approach to the budget with, at its core, a plan for each Member State linking key reforms with investments, and focusing on our joint priorities, including promoting economic, social and territorial cohesion.

A plan for each Member State would gather all investments, other instruments, and reforms relevant for EU priorities. Each Member State, with close involvement of regional and local authorities and other relevant stakeholders, would be responsible to draw up their plan and to propose the relevant key investments, other instruments, and reforms, which could be organised in thematic/sectoral and/or regional chapters.

The preparation of the plans would incorporate the findings of the steering mechanism announced as part of the Competitiveness Compass Communication[29] of February 2025, linking EU priorities with the EU budget. The steering mechanism would identify the main challenges that the Union and its Member States face in all relevant policy areas and provide country-specific recommendations, which would help with the identification of reforms, investments and other instruments for the individual plans. This would contribute to ensuring that the plans address key EU priorities and have a strong EU added value. Reform, investment and other instrument proposals would be tailored to each Member States' national and, where relevant, regional needs. Since the plans would cover a broad range of policy areas (cf. infra on scope) based on the findings of the steering mechanism, there will be no options regarding thematic priorities. The functioning of the proposed steering mechanism and principles of its governance are not covered by this impact assessment.

[29] COM(2025) 30 final 10017eb1-4722-4333-add2-e0ed18105a34_en

Each plan would be negotiated and approved by the Commission based on common assessment criteria. Technical support and assistance would be provided as part of the plans, targeted to Member States' and regions' needs, to address the disparities in technical and administrative capacities between Member States and/or regions. The plans would be subject to the respect of the rule of law, in line with the Political Guidelines.

Regional and local actors, including civil society, and specific sectors will remain at the centre of the plans, as the partnership principle and multi-level governance arrangements would continue to apply with appropriate mechanisms considering the context of the plan. Member States could choose to have regional/territorial chapters, in accordance with their constitutional, legal and administrative setting or preference, as well as thematic/sectoral chapters. The plan should also specify how responsibilities, including the delivery model and following payments, are shared among different levels of government. Hence, while there would be one coordinating authority in each Member State, other authorities, would be in charge of the implementation of specific regional or thematic/sectoral chapters. Regional partnership and monitoring committees would also be established.

The plans would follow a common rulebook, with the same rules on key issues such as:

- Governance of the plans – including the role of Member States' authorities and monitoring committees;
- Conditionality – with horizontal conditions regarding compliance with the rule of law and the Charter of Fundamental Rights of the EU, as well as the principles of "do no significant harm" and gender equality;
- Management and financial rules – including assurance, data collection and recording, transparency, processing of personal data, payments.
- Specific type of support – including the use of financial instruments.
- Other horizontal provisions, such as State aid compliance, empowerment for delegated and implementing acts.

The main characteristics of the plans as described above will not be assessed in this impact assessment since they stem from the Political Guidelines. As outlined in the intervention logic, in light of the problems identified and the specific objectives of this initiative, there are choices to be made regarding the design and scope of such plans.

There is a need to examine first the **design** (or the 'mechanics') of the plan, that is, how it will work and which characteristics it should have to best fulfil the objectives outlined above. This concerns on the one hand the "delivery model" (that is, how payments are made) and on the other hand the "management mode" (that is, how EU spending is implemented and overseen). The choices with respect to those design features will have an impact on the **scope** of the plans, which should therefore be examined in a second stage. Other elements, such as the structure of the underlying funds (e.g. how they would be integrated under the plans), the policy priorities to be covered, possible concentration requirements and the impact on EU policies enshrined in the Treaty are not assessed as part of this impact assessment.

At the same time, an option to implement existing funds currently governed by separate fund-specific regulations within a single plan for each Member State is not analysed as part of this impact assessment.

In light of the above, this impact assessment will proceed in two stages. First, **section 6 will assess the options related to the design of the plans** (delivery model and management mode). Following an analysis of their impacts (6.1), it will assess the effectiveness and coherence of the options in relation to the specific objectives of this initiative (6.2) and compared to the baseline. The choice of the preferred option for the design of the plans will be made on that basis (6.3).

Second, **section 7 will assess the options related to the scope of the plans.** There will be two sets of options – the first set focused on the scope of the plans as such, and the second set to assess whether the plans are a suitable tool to support cross-border/multi-country projects. It will follow a similar structure as section 6, looking at the impacts of the available options (7.1) and assess their effectiveness and coherence in relation of the specific objectives and compare to the baseline (7.2). In doing so, it will take into account the preferred option chosen for the design of the plans.

Given that assumptions on the budget would be unreliable at this stage, the impact will not include funding scenarios and no cost benefit analyses will be carried out to assess the efficiency of the policy options proposed.

<u>Summary of the options</u>

DESIGN	Delivery model	Management mode
	➢ **Option A**: cost-based finance model with possibility to disburse funds based on performance ➢ **Option B**: delivery against pre-agreed objectives ➢ **Option C**: hybrid model	➢ **Option D**: shared management ➢ **Option E**: direct management

The choices on the design of the plans will have an impact on its scope

SCOPE	Option 1 Baseline+	Option 2 CAP	Option 3 Modernisation Fund	Option 4 Cross-border projects
	➢ Cohesion policy (ERDF, CF, JTF, ESF+) ➢ Fisheries and maritime policy (EMFAF) ➢ Home affairs (AMIF, BMVI, ISF) ➢ SCF	➢ **Option 2a**: Option 1 + EAFRD (rural development ➢ **Option 2b**: Option 2a + EAGF (direct payments and market measures	➢ **Option 3a:** Option 1 + Modernisation Fund ➢ **Option 3b:** Option 2a/2b+ Modernisation Fund	➢ **Option 4a**: implementation through the plans ➢ **Option 4b**: dedicated instrument

5.3. Options on the design of the plans

This section examines which design features are best suited to reach the objectives of this initiative. The options focus in particular on the plans the delivery model (1); and their management mode (2). Annex 8 presents the current set-up regarding both dimensions.

5.3.1. *Options on the delivery model*

Option A: Cost-based finance model with the possibility to disburse funds based on performance

This option entails the use of a cost-based delivery model in which disbursements remain predominantly linked to incurred expenditure and Member States submit cost-based payment claims to the Commission to reimburse. The use of SCOs at the level of operations and of FNLCs disbursements would be further encouraged, with a view to simplifying implementation and enhancing the focus on results.

Option B: Delivery against pre-agreed milestones and targets

Option B implies a system where payments are made only upon fulfilment of milestones and targets which represent the different implementation stages. of each supported reform, investment and other instruments. The estimated costs of implementing planned reforms, investments and other instruments would be assessed ex-ante and serve as a basis to determine the level of ambition of milestones and targets, but the disbursement to Member States would not be based on the expenditure incurred for their implementation. Payments would be made upon completion of pre-agreed milestones and targets capturing key steps in the implementation of reforms, investments and other instruments.

Option C: Hybrid model

Option C also implies a system where payments are largely made only upon fulfilment of milestones and targets, as under option B. However, it would also allow for payments based on expenditure incurred in cases where it is difficult to clearly estimate the costs ex ante or where there could be a risk of overpaying (e.g. projects subject to public procurement, especially large infrastructure projects).

5.3.2. *Options on the management mode*

Option D: Shared management

Member States and the Commission would share the responsibility for implementing the funds and as well as in protecting the financial interests of the Union. The Commission would negotiate with Member States and approve the plans to ensure alignment with political priorities and compliance with assessment criteria. Tasks related to budget implementation would be delegated to Member States, who would themselves appoint bodies for the management and control of the funds. In case a cost-based delivery model was applied, the Member State authority would submit payment claims to the Commission and provide assurance, as it is currently the case for shared management funds. If a performance-based delivery model was adopted, national and/or regional programme authorities jointly assess the fulfilment of milestones and targets and provide assurance. The Commission would be able to interrupt payments to request additional evidence and apply suspensions. If needed, ex-post audits could be performed and corrective measures and potential recoveries could be applied if some milestones and targets are not fulfilled. Technical assistance could help address the administrative capacity challenges faced notably by regional and local authorities.

Option E: Direct management

The Commission would oversee the implementation of programmes directly and the management would be more centralised at the Member State level. In a performance-based model, the Commission assesses the fulfilment of milestones and targets, based on the relevant evidence provided by Member States in addition to management declarations, and would carry out audits. In a cost-based model, the Commission would check all evidence of the expenditure incurred for the implementation of measures and conduct audits and controls to verify their legality and regularity.

5.4. Options on the scope of the plans

The effectiveness of the design options of the national plans will depend on which of the current spending programmes is integrated in the new instrument – i.e. the extent to which the current spending programmes would be subject to the same rules (incl. management mode and delivery model) and included into one envelope per Member State (the "scope" of the plans").

As the Political Guidelines refer to "a plan for each country linking key reforms with investment, and focusing on our joint priorities, **including promoting economic, social and territorial cohesion**" all options build on Option 1. While the focus is on those spending programmes with nationally pre-allocated envelopes, this does not exclude that (parts of) other spending programmes are also integrated in the plans, for instance those with strong synergies (e.g. LIFE; food and feed strand of the Single Market Programme). The impact assessment does not discuss whether existing (sub-streams) of programmes are intended to be re-oriented or discontinued – but rather which EU programmes with nationally pre-allocated envelopes could fit within the scope of the plans from a policy perspective.

<u>Option 1</u>

The funds currently covered by the CPR would be covered in the plans, i.e. cohesion policy funds (ERDF, CF, JTF, ESF+), fisheries, aquaculture and maritime policy (EMFAF) and the three home affairs funds (AMIF, BMVI, ISF). This Impact Assessment does not discuss nor prejudge the way they would be covered. In particular, the policy priorities, and possible concentration requirements are not assessed. The currently off-budget Social Climate Fund (SCF) would also be brought under the umbrella of the plans since its objectives are closely aligned with cohesion funds and the implementation of the Fund will be based on Member States plans with characteristics similar to those considered in this document (e.g. payments linked to the fulfilment of objectives). The initial phase of the SCF will require a stable environment, including by having legal certainty for Member States and beneficiaries, in order to ensure a rapid and efficient start of implementation.

Support would continue to be provided for all regions with a strong focus on the less developed regions as well as territories with special features (e.g. outermost regions, northern sparsely populated regions, islands, mountainous areas)[30]. The plans would allow to incorporate subnational/regional and sectoral chapters into the plan – Member States could have chapters that are only national, only regional and only sectoral or a combination of the three. The plan would also specify the sub-national reforms and investments and how responsibilities, as well as the following payments, are shared

[30] See Annex 9 for further analysis

among different levels of government. Member States could choose to delegate part of the design and implementation of supported measures to regional authorities, based on a national framework.

The partnership principle would remain a fundamental feature of the plans. One coordinating committee (at national level) and, if appropriate, more monitoring committees (at regional level and/or covering certain sectoral interventions) could be put in place for the implementation, depending on the structure of the plan. In addition, stakeholders would have to be more closely involved in the setting up of reform and investment measures that are relevant to them or that are implemented at their level.

The Common Agricultural Policy would remain self-standing with separate Member State CAP strategic plans.

Option 2

Both CAP funds aim to "to ensure a fair standard of living for the agricultural community", among other Treaty objectives. As part of the EAGF, the core instrument is the basic income support for sustainability (known as BISS) which is provided to all farmers on the basis of their eligible hectares. Complementary income support is provided for young and small farmers, while coupled income support is targeted at specific sectors facing competitiveness, sustainability or quality difficulties, and certain interventions aim at strengthening the position of farmers in the value chain, mainly through producers' organisations and interbranch organisations. EAGF comprises also payments for the provision of ecosystem services, the so-called eco-schemes, for annual commitments taken up by farmers going beyond the minimum conditionality rules (further details below) and which today covers 22% of the EAGF.

The focus of the EAFRD includes the development of thriving rural areas, which deliver on the needs of the agricultural community and help attracting newcomers to the sector. As part of the EAFRD, income support is also provided for farmers located in areas under natural or other area-specific constraints, productive and non-productive investments, risk management tools and different types of cooperation and knowledge exchange. The key element of EAFRD are payments for the provision of ecosystem services, known as agri-environmental, climate related and other management commitments (AECM). These payments are equally established based on farming area or per animal.

The instruments in the two funds work together to achieve the objectives of the CAP but interventions supported by the EAFRD are mainly of a multi-annual nature and co-financed by the EU budget while direct payments and market measures under the EAGF are annual and solely financed by the EU budget.

The study on funding for EU rural areas found that the EAFRD and cohesion policy funds demonstrate strong complementarity - albeit at different scales of intervention - especially when appropriate strategies for rural areas are in place, leading to better synergies between the CAP, cohesion policy and other EU funds supporting rural areas. Section 2.2.1 of the problem definition provides examples of the types of synergies between the EAFRD and cohesion policy. Based on the above, there are two options for the integration of the CAP within the plans, which result in different levels of synergies and complementarities with Option 1.

Option 2a – EAFRD within the national plans

Only the EAFRD would be integrated in the plans for each country linking key reforms with investments. Concretely, certain elements of the objectives of the CAP would be delivered according to the provisions governing the plans while others would be delivered outside of the plan through the EAGF.

The governance structure described in Option 1 would be compatible with the governance of the current CAP, as it would still be possible for Member States to delegate to regional managing authorities the EAFRD interventions envisaged in the plans, while the national coordinating body would remain responsible for ensuring the appropriate coordination and guaranteeing the coherence and consistency of the plans. There could be monitoring committees set up at regional level, in addition to the central monitoring committee set up at national level.

Building on the current CAP (which is also subject to the partnership principle), the enhanced partnership principle of Option 1 would also apply. This will guarantee the involvement of all relevant public bodies (including competent regional and local authorities), economic and social partners as well as relevant bodies representing civil society in the implementation of CAP objectives.

The EAGF would continue as a self-standing fund outside the plans and would include only the instruments of direct payments to farmers and market measures.

Option 2b – CAP within the national plans

Both the EAFRD and the EAGF would be integrated in the plans. The multi-level governance, with a strong regional dimension as outlined in Option 2a would apply, as well as the enhanced partnership principle. In line with the nature of the CAP, specific rules would be needed to preserve the integrity of the single market and fair competition between farmers. Taking this into account, among other specific elements, the integration of the CAP within the plans would be accompanied by specific policy objectives for the CAP and specific policy requirements attached to the set of interventions to be supported in the agricultural sector and rural areas. These interventions and rules would need to make sure that support is targeted to farmers who need it most – with a particular attention to the farmers in areas with natural constraints, young and new farmers, and mixed farms, as well as those providing ecosystem services. A dedicated agricultural chapter within the plans would allow to bring these specific elements together in a coherent strategy for agriculture per Member State, building on the experience of the CAP Strategic Plans. At the same time, Member States would also be able to draw on the wider set of interventions available within the plans to achieve the CAP objectives, such as the dedicated support for young farmers, setting – up business development alongside interventions to improve attractiveness and living standards in rural areas, etc.

<u>Option 3</u>

The Modernisation Fund is an off-budget programme set up from 2021 to 2030. A small percentage of the total EU ETS allowances are auctioned to the benefit of 13 lower-income Member States and proceeds are shared between the beneficiary Member States in shares set in the ETS Directive. The funding is used to support the modernisation of the energy sector in line with State aid rules. From a policy perspective, these projects are similar to investments also covered by other EU spending programmes, in particular cohesion policy, the RRF and the SCF.

From a budgetary point of view, the Modernisation Fund is of a very different nature than other EU spending programmes. Member States are the driving actors of the implementation, submitting investment proposals for the screening of the EIB or the validation by the Investment Committee. The Commission has the obligation to adopt the disbursement decision once an investment has been confirmed by the EIB (for priority investments) or recommended for financing by the Investment Committee (for non-priority investments). Disbursements are not subject to the Financial Regulation. The Budgetary Authority has no role and the European Court of Auditors has no auditing powers with regard to Member States' spending. It can only audit the EIB and Commission procedures and disbursement decisions. Unlike the other ETS-funded funds, disbursements made under the Modernisation Fund are not subject to any rule of law conditionality nor the Conditionality Regulation.

Under Option 3, the Modernisation Fund would be integrated into the plans, providing more visibility to the investments to be carried out beyond the current obligations set out in the ETS Directive. While Member States would still be responsible for the selection of reforms and investments they wish to support, programming would need to take into account the steering mechanism and be subject to approval by the Commission, which would be carried out based on the assessment framework agreed at EU level. Member States' spending would be subject to the same audit and control rules, delivery model, payments rules, etc. as the rest of the plan. Finally, the spending would need to comply with the rule of law conditionality.

There are two options for the integration of the Modernisation Fund in the plans, which largely depend on the outcome of the assessment of Options 1 and 2.

- **Option 3a:** the Modernisation Fund would be integrated in the plans, together with the other funds covered by the CPR and the SCF (Option 1).

- **Option 3b:** the Modernisation Fund would be brought under the umbrella of the plans, which would also cover the funds mentioned in Option 3a as well as either the EAFRD only (Option 2a) or the EAFRD and the EAGF (Option 2b).

5.5. Options to support cross-border projects

Option 4 focuses on cross-border infrastructure projects in the field of transport and energy, as currently covered under the CEF. The digital strand of CEF is assessed as part of the impact assessment on the European Competitiveness Fund.

<u>Option 4a: cross-border infrastructure projects under nationally pre-allocated envelopes</u>
The implementation of cross-border (in transport and energy) and dual-use projects on the military mobility would be programmed and implemented within the plans. Hence, the implementation of such projects would be done under the rules of the plans – including shared management and a performance-based delivery model. Each Member State would be responsible to implement the part of the cross-border section or a military mobility project on its territory.

<u>Option 4b: dedicated instrument for cross-border infrastructure projects</u>
A separate instrument would be created to provide support for the implementation of cross-border projects (in transport and energy) and dual-use projects on the military

mobility network. Building on the experience of the CEF, this instrument would be directly managed with competitive calls for proposals where project promoters apply directly for funding and selection by the Commission in a cost-based delivery model. National projects of a cross-border relevance (e.g. national section of a TEN-T corridor within a Member State) would be implemented through the plans.

Since the Political Guidelines clearly state that “the European Competitiveness Fund will support Important Projects of Common Interest (IPCEIs)”, IPCEIs will be covered in the dedicated impact assessment – including possible links with the plans. The options rather focus on cross-border infrastructure projects in the transport and energy sectors, noting that other sectors (e.g. digital) are covered in the scope of the Competitiveness Fund Impact Assessment.

6. ASSESSMENT OF THE OPTIONS RELATED TO THE DESIGN OF THE PLANS

6.1. What are the impacts of the options?

6.1.1. Options on the delivery model

Option A: Cost-based finance model with the possibility to disburse funds based on performance

As cost-based financing has been used for a long time, managing authorities and beneficiaries are overall familiar with the way it works, albeit to a different extent across Member States and programmes. This could facilitate communication and understanding, as the actors involved would be able to build on existing practices, structures and IT infrastructure. However, this also applies to performance-based models given the experience gained under the RRF by Member States and beneficiaries over recent years (which would be further strengthened with the set-up of the SCF).

In this model, however, payments from the Commission to Member States are slower, since they only take place once expenditure has been incurred and paid and corresponding management verifications carried out. Relying on a cost-based delivery model would not reduce the current level of administrative costs, both for Member States’ authorities in the verification of invoices and beneficiaries for keeping them.

With a view to simplifying implementation and enhancing the focus on results, this option would be paired with a possibly strengthened requirement to use SCOs and encourage the use of the FNLCs disbursements to reduce the need for checks on actual costs. SCOs would help reducing it and simplifying the process to beneficiaries. However, the experience of Member States and regions with such schemes, as well as beneficiaries, remains low (especially for FNLC).

As the complexity of the verification process can make transactions that involve reimbursement of actual costs more susceptible to errors, this model would not reduce the currently high error rate of cohesion policy funds. However, the use of SCOs allows for a more efficient and reliable approach, with lower likelihood of errors. A slow pace of payments is, however, not an issue for all types of instruments (e.g. direct payments under the CAP have a very high annual execution rate) and not all policies have high error rates (e.g. the CAP).

Under a cost-based delivery mode, incentivising reforms could only be based on enabling conditions and financial support for reforms only on effective costs of their implementation which would be a constraint and could involve more complexities. The costs of reforms are often difficult to quantify, and it is often the political costs rather than the implementation cost that makes their adoption difficult. While the current system of enabling conditions has helped to ensure the right framework conditions for investments, their completion would only grant access to funding and not trigger payments. Yet, experience shows that the incentive to carry out reforms is significantly stronger if the reforms are tailor-made (as opposed to minimum conditions identical to all) and can trigger payments.

Option B: Delivery against pre-agreed milestones and targets

The focus here is on achieving tangible results captured by specific milestones and targets, rather than submitting detailed claims for reimbursement. This aspect may result in better communication opportunities for the wider public, as it would be easier to communicate on the results achieved with EU funding by relying on the milestones and targets completed (rather than when only invoices are available at hand). A clear performance orientation would also increase the policy alignment to EU priorities, as this could be ensured at the moment of the design and payment, provided that the right safeguards are established, including to avoid over-reliance on input and process-oriented indicators that might not capture the quality of the outcomes achieved. This model requires strong ex-ante checks as well as a clear definition of milestones and targets.

Programming based solely on negotiated outputs and/or results would likely represent an administratively burdensome process, (as experienced in the RRF or with FNLC schemes under cohesion policy funds[31]), in particular in view of the at times complex exercise of estimating the costs of envisaged interventions ex-ante. However, this would only be a one-off process. Furthermore, Member States's authorities have already acquired a significant amount of experience in such delivery models, which would reduce entry costs. The use of standardised milestones/targets and – whenever possible – standardised costs may help in this context to improve consistency and comparability. In addition, more extensive use of technical assistance could be considered in the future to support Member States – whenever relevant – in the ex-ante costing exercise.

On the other hand, under such a system, funds are likely to be disbursed more rapidly to Member States, especially since such a delivery model allows to pay for the completion of preparatory and intermediate implementation steps of the supported reforms or investments. However, the speed of disbursements would ultimately depend on the Member State's capacity to fulfil on time specific milestones and targets linked to policy interventions (incl. reforms) and investments.

This model would provide more incentives for Member States to carry out reforms. As shown by the mid-term evaluation of the RRF, linking reforms and investment under a performance-based delivery model provides effective incentives for Member States to deliver on reforms, which do not necessarily come with (financial) costs and hence do not fit so well under a cost-based delivery model. Linking investments with reforms would increase the overall impact of the EU budget – as opposed to funding only

[31] Mid-term evaluation of ESF+

investments. Such a model is also compatible with interventions with stable outputs to be delivered over time without the need to set out ex-ante a precise target to achieve; for example, CAP interventions relying on a given value per hectare set out in the plan with payments based on achieved outputs.

In terms of assurance, such a model requires somewhat different capacities for verification and audit compared to a cost-based model under Option A. While it would imply initial adjustment costs for Member States, this could be mitigated by actions to enhance administrative capacity as well as with technical assistance and support. Member States will also be able to build on the experience gained by national implementing and audit authorities under the RRF. A lower administrative burden for (final) beneficiaries could be expected at the implementation phase (while preparations would be more resource intensive), provided this model is also replicated at national and regional level, but this has largely not been the case until now. The use of FNLC by Member States with their own beneficiaries could, in this regard, be further promoted to ensure consistency and avoid duplicating reporting requirements.

Given the timeframe of implementation of the plans (linked to the duration of the MFF), milestones and targets would most often be based on outputs and results, rather than impacts. This being said, a focus on outputs and results rather than invoices would considerably improve the performance orientation of nationally pre-allocated envelopes. Furthermore, the Performance Regulation – which will monitor the implementation of the plans – will provide an extensive number of harmonized output and result indicators which will already considerably improve performance monitoring while reducing the administrative burden.

Option C: Hybrid model

Option C also implies a system where payments are made only upon fulfilment of milestones and targets, following the same principles as outlined under option B. However, it would also allow for payments based on expenditure incurred in cases where it is more difficult to estimate the costs ex ante or are subject to change (e.g., major infrastructure or public procurements projects where agreeing in advance on the level of EU support could lead to overcompensation and/or to the distortion of offers by the bidders as they know in advance what the promoter is ready to pay).

Similarly to option B, this hybrid model allows for disbursement upon meeting milestones and targets or fulfilment of reforms, an overall rapid disbursement of funds and lower administrative burden for beneficiaries related to the submission of reimbursement claims. Therefore, this dual approach would allow upholding the performance orientation of the EU budget.

While the transition to a predominantly performance-based system not linked to costs will entail initial adjustment costs for Member States, this option provides a balance between performance adherence and flexibility to address the different policies' needs and diverse challenges. Enabling real costs for a limited number of specific cases could be considered to reduce complex cost estimates, thus reducing uncertainty and minimising risks of uncertainty related to cost estimates.

However, this option would also imply that a duplication of payment, assurance and reporting systems which would increase administrative burden. The combination of cost-based and non–cost-based delivery models also introduces additional complexity for

Member States, a criticism voiced in the context of the new delivery model of the CAP and the RRF mid-term evaluation. It would also be difficult to delineate which (types of) investments could justify payments based on incurred expenditure. For example, the RRF has shown that it is possible to apply a non-cost-based delivery model to infrastructure projects. More extensive use of technical assistance could be considered in the future to support Member States – whenever relevant – in the ex-ante costing of complex projects.

Quantification of the impacts of the delivery model (see Annex 11)

The RHOMOLO model (Barbero et al., 2024[32]) was used to simulate the impact of cohesion policy interventions for the period 2021–2027 for all three options on the delivery model (see Annex 11 for the more detailed analysis). The analysis showed that the 15-year cumulative GDP multiplier for Option B is 29.5% higher than for Option A; 70% of this difference is due to frontloading investment (since a performance-based delivery model allows to pay for the achievement of interim milestones and targets) and the remaining 30% is due to additional supply-side effects of 10% (due to the focus on results rather than spending). The 15-year cumulative GDP multiplier of Option C is 19.5% higher than that of Option A, with 79% of this difference being attributable to frontloading investment and the remaining 21% to the additional 5% supply-side effects.

Therefore, the frontloading investments under a performance-based delivery model means the benefits to GDP of the interventions start to materialise earlier, leading to larger cumulative GDP gains over time. Furthermore, larger supply-side effects lead to higher GDP multipliers.

6.1.2. Options on the management mode

Option D: Shared management

As concerns cohesion policy, the CAP, the CFP and also home affairs policy, Member States, regions and beneficiaries have a lot of experience with shared management. They have processes in place that have become well-established over the many years that these EU policies have existed. Through its decentralised nature, responsibilities are spread across different actors, which may make implementation less of a burden for one single entity. This also allows for local and regional knowledge, needs and experiences to feature more easily, including when it comes to faster adaptation to local circumstances. This is especially true concerning the involvement of stakeholders. A shared-management system also allows for building the institutional and administrative capacity at the local and regional level. Lastly, because of the shared responsibilities, ownership of Member States and regions is greater, ultimately making the design, adoption and implementation of reforms (as well as investments) more sustainable.

Under a model with payments against pre-agreed objectives, shared management would mean that the assessment of whether milestones and targets have been met is the responsibility of Member States. Since Member States authorities have not had this kind of assessment responsibility on such a large scale before, the learning curve will be steep

[32] Barbero, J., Christou, T., Crucitti, F., García Rodríguez, A., Lazarou, N.J., Monfort, P., and Salotti, S. (2024). A spatial macroeconomic analysis of the equity-efficiency trade-off of the European cohesion policy. *Spatial Economic Analysis* 19(3), 394-410.

for all authorities involved. Member States would need to have appropriate management and control framework in place to implement their plans, the necessary capacity and guidance to conduct such assessments and take appropriate and timely action to remedy deficiencies. In the absence of such frameworks, this approach could lead to inconsistency and an uneven playing field across Member States. To mitigate that risk, dedicated measures to support better governance and capacity building could also be included in the plans from the outset, where relevant, or introduced later during implementation if specific difficulties arise and to ensure consistency and a level-playing field across Member States. Since the quality of knowledge of local needs does not depend only on the formal involvement of local actors but on the data available, efforts should be done to ensure a high-quality data-driven needs assessment drives the programming and implementation of the plans.

Another disadvantage of this option relates to reducing direct Commission steer and controls which could be mitigated by the negotiating process, the governance and rules set in plans, as well as regular system audits that would enable the Commission to check the robustness and reliability of national audit and control procedures. As under current programmes (e.g., cohesion), the Commission would in any case retain the possibility to react and take action whenever needed to ensure Member States comply with their obligations throughout implementation. (ex post).

Option E: Direct management

Through the RRF, both Member States and Commission have gained experience with direct management at a larger scale in the context of nationally pre-allocated envelopes. However, processes are still not as well-established as in shared management. Furthermore, many Member States relied on the existing structures for the implementation of shared management funds to implement the RRF. Because of the centralised nature and payment system, the Commission can exercise more direct control over the implementation of the funds. However, more centralised direct management might generally lack local knowledge and experiences, making adaptation to local (and possibly changing) needs more difficult and less flexible. Centralised direct management also does not support national/regional/local ownership to the extent that shared management does.

6.2. How do the options compare?

Effectiveness

SO1 – Ensuring coherence between EU priorities, national and regional actions

The assessment of the options on the management mode shows that shared management (Option D) would best cater for the multi-level governance and strong regional dimension of the plans. Regions know their needs best and are best placed to implement the projects in their territoriesEvery territory has its own specific needs and knows best how to address them – with some needing to invest more in education and skills, while others in need of improving the management of their external borders. Shared management would ensure that the plans are tailored to the specific needs of Member States and regions and help enhance ownership of the reforms and investments. In turn, this would help to deliver more efficiently on the policy objectives set at EU level. On the other hand, while under direct management, the Commission would exercise more control over implementation and can ensure better alignment with EU priorities, the lack of local and regional knowledge and expertise as well as more limited ownership of local/regional bodies could lead to incoherence between EU priorities and local and regional actions. Hence, national/regional/local ownership under shared management would increase the success and impact of EU funds compared to direct management.

As for the delivery model, Option B would ensure better coherence, value for money and accountability compared to a cost-based delivery model (Option A). Option B increases the focus on concrete outcomes of expenditure and its contribution to economic, social and environmental objectives. The specific results to be achieved would be set out clearly in advance, enhancing Member States' and stakeholders' ability to plan ahead, and thereby ensuring coherence with national and regional actions. Furthermore, providing financial support upon the fulfilment of milestones and targets would provide incentives to deliver on the actual implementation of agreed measures. It would be important to establish meaningful performance milestones and targets, as their quality is a prerequisite for the success of a performance-based delivery model.

Option B would provide a simpler framework for having reforms at Member States level than under Options A and C, which moreover have the potential to further enhance coherence between EU and national/regional/local activities by ensuring that the necessary framework conditions for the implementation of EU priorities and national/regional/local investments are in place

SO2 – Creating a simple and cost-effective framework delivering on EU priorities

The assessment of the options on the management mode show that relying on shared management for the plans (Option D) would ensure simplicity for Member States and regions and reduce administrative costs. Member States' and regional authorities could build on the existing management and control structures and arrangements for the management of EU funds with nationally pre-allocated envelopes. While Member States have developed implementation structures for the RRF (implemented under direct management), these were often the same structures used for the implementation of shared management funds such as cohesion. Adjustment costs for Member States' authorities would therefore be lower under shared management compared to direct management – except for the still-to-be-implemented SCF, where the integration into the plans would entail changes to the management mode rules.

As for the delivery model, Option B would likely imply some adjustment costs for national and regional authorities. Setting up a solid performance framework, based on reliable, high-quality data, can create costs for Member States' authorities, beneficiaries and the Commission. These would however be one-off entry costs and could be mitigated given that Member States' authorities have already acquired experience with such delivery model and through the provision of technical assistance. Conversely, while relying on a cost-based delivery model would reduce adjustment costs for Member States, given the high levels of familiarity with such a system, it would not address the high administrative costs involved in the verification of invoices, as well as issues related to being more prone to errors under cohesion policy funds. A hybrid system (Option C) would result in a duplication of payment and assurance systems and hence higher administrative costs for Member States' authorities.

SO3 – Meeting both long-term policy goals and emerging policy priorities

The assessment of the options shows that flexibility can be achieved both under a cost-based and a performance-based delivery model. Flexibility very much depends on the legal requirements linked to programming (e.g. whether money is earmarked to certain priorities, if there are any reserves, what are the requirements regarding the amendments of the programmes or conditions for payment). Such rules can be designed in a more flexible or stricter way which does not depend on the delivery model as such.

The same applies when comparing shared and direct management mode. The experience from the current programming period shows that both in case of the RRF and cohesion policy, many rules that were introduced did not allow for achieving the level of flexibility that is required for the challenges faced by all EU policies. This being said, shared management could ensure that priorities emerging at regional/local level can be addressed more effectively (provided the right rules are in place).

Figure 3. Summary of the effectiveness of the options on the design of the plans – qualitative assessment (from "+" less effective to "+++" most effective)

	Delivery model			**Management mode**	
Specific objectives	**Cost-based**	**Performance-based**	**Combination cost/performance**	**Shared**	**Direct**
SO1	+	+++	++	+++	+
SO2	+	+++	++	+++	++
SO3	N/A	N/A	N/A	N/A	N/A

Coherence

Internal coherence assesses how the different elements of the plans would work together. This would be achieved by applying the same delivery model and management mode to the entire plan. Bringing the different funds under the same roof would facilitate further synergies both from a policy and administrative point of view. For example, applying the same delivery model to all measures supported by the plans would allow to more easily track and report on the overall implementation of the plans, while more easily assessing the risk of double funding. Relying on the same shared management structure would remove overlaps and allow to better exploit the synergies between policy areas covered by the plans.

As for external coherence, it looks at how the plans would work with other instruments in the EU budget, as well as national/regional funding and private investments. Moving towards a fully performance-based delivery model would mirror the efforts also done by other EU spending programmes to apply a stronger focus on performance. This can be seen in external action funding (e.g. Ukraine Facility; Western Balkans Facility) but also in EU programmes without nationally pre-allocated envelopes, where the use of performance-based forms of funding has increased over time (e.g. Horizon Europe, Erasmus+). Applying a performance-based delivery model to the plans would therefore reduce the fragmentation of the EU budget into different programmes with different delivery models. At the same time, it would be important to ensure that the risk of double funding can be easily assessed, given that the concept of double-funding is a cost-based concept which is difficult to apply to a performance-based delivery model. Under the next MFF, the plans will contribute to bolstering EU Competitiveness under the pre-allocated envelope, through notably the promotion of economic, social and territorial cohesion with regions at its centre, and complement investments at EU level under the European Competitiveness Fund.

Finally, experience shows that having different programmes with different management modes does not undermine the coherence between EU spending programmes. It would be important to align the rules of spending programmes to be able to exploit the synergies between them (e.g. rules on cumulative funding) and avoid inconsistencies (e.g. different level of assurance).

6.3. Preferred option for the design of the plans

In light of the above, the preferred option for the design of the plans is **a delivery model against pre-agreed objectives** (Option B of the delivery model), **under shared management** (Option D of the management mode). This preferred option will be taken into account when assessing the options related to the scope of the plans in section 7.

7. ASSESSMENT OF THE OPTIONS RELATED TO THE SCOPE OF THE PLANS

7.1. What are the impacts of the options?

<u>Option 1 (cohesion policy funds; EMFAF; home funds; SCF)</u>

The plans would ensure better consistency between different policy priorities. Policies are mutually dependent and need to be closely coordinated, in concert with all competent authorities. For example, linking cohesion policy with home affairs under one plan could ensure a better integration of asylum seekers into local communities, including in the labour market, while a closer link between cohesion and maritime and fisheries policy could also help stimulate economic activities, such as tourism and shipping, creating jobs and improving livelihoods in coastal regions. Likewise, the plans would allow to better exploit the synergies that exist between the SCF and cohesion – for instance, on skills or providing trainings targeting vulnerable households on energy efficiency. This would go in line with the recommendations of the high-level expert group on the future of cohesion policy, which found that "cohesion is far too important to be left to cohesion policy alone; i*t should operate in concert with other EU and national policies, as these are mutually dependent and must work together to reach their collective goals. Economic, social and territorial cohesion cannot be achieved without other policies taking into account their uneven territorial impact".*

Support would be provided to all regions regardless of their level of development with particular attention to less developed ones. New priorities and challenges are relevant to various degrees for all regions as well as all Member States, even for those with a higher level of development. Other challenges, such as the demographic transition, access to essential services, the loss of social and human capital, and pockets of poverty or increasing climate or security risks, may also require a specific territorial focus, irrespective of the categories of regions where the supported territories are located and targeting the sub-regional level too. This would help in achieving impacts comparable to current analytical results (see Annex 9 for a detailed analysis).

Furthermore, the plans would retain a strong regional and territorial dimension, that closely involves regional and local authorities in the design and implementation of cohesion and sectoral policies and supports regional/local ownership in line with

current practices, including the possibility to interact directly with the Commission services. Indeed, the set of challenges faced by regions call for enhancing the place-based dimension of cohesion policy. By including a fully-fledged governance structure for the regional/subnational/sectoral level and allowing to incorporate subnational/regional and sectoral chapters into the plans, the latter would ensure that support is focused on the specific needs of each Member State and its regions and sectors, while being consistent with EU priorities. Considering the broad experience in the programming and management of EU funds of regions and local authorities, as well as the lessons learnt from the CAP – which also caters for a strong involvement of regional managing authorities within a national strategic plan – having sub-national chapters would not bring additional burden or reduce flexibility but would rather ensure that the plans deliver most efficiently on our joint policy objectives. Concretely, reforms and investments would be tailored to the challenges of regions and territories with different development profiles (trapped, with specific transition needs, with very low development levels, with different levels of administrative capacity, etc.), while delivering on EU priorities. Overall, the strong regional dimension of the plans would fulfil the Political Guidelines' call for a strengthened cohesion and growth policy with regions at the centre, designed in partnership with national, regional and local authorities.

The plans are also expected to significantly enhance the EU's competitiveness by removing long-standing regulatory barriers at the national or regional levels and create an environment more conducive to investment. With high levels of public debt and relatively low growth prospects, Member States and regions need to make a more efficient use of budgetary resources to increase productivity, enhance economic growth and create jobs. Structural reforms, including at subnational level, can drive the green and digital transitions, convergence of Member States and regions, and improve the functioning of governance, labour, and product and services markets as well as justice and social protection systems. In the medium to long run, they increase the mobility and efficient use of production factors, thus raising productivity and the economy's aggregate output. By accelerating growth, structural reforms can, in turn, both reduce concerns about the potential short-term growth costs of ambitious reforms and create fiscal space to implement them. Moreover, structural reforms can stimulate private sector investment by improving the business environment, facilitating the reallocation of resources to more sustainable activities.

The plans would give Member States the necessary incentive to engage in an ambitious reform agenda. For example, the plans could include reforms related to lifting barriers in the internal market, competitiveness reforms or procurement reforms. They could also be used to support Member States and regions in the implementation of key EU policy priorities, such as the European Pillar of Social Rights, the Pact on Migration and Asylum or the European Green Deal. Even if not directly related to investments included in the plans, the reforms supported would improve the effectiveness of EU funds as they concern Member States' structural reforms where implementation would benefit the implementation of investments across the board.

In contrast with the current enabling conditions in cohesion policy which are the same for all Member States, reforms would be tailored to a specific national or subnational context. Indeed, Member States have different political, economic, social and sustainability contexts, but they all face similar challenges. Reform needs can also exist at the subnational level, especially where regional and local authorities have significant competencies. At the same time, the steering mechanism at EU level would ensure that reform priorities are aligned with EU priorities and undertaken across Member States in a coherent but tailored way. By design, the plans would effectively align EU funding with key EU priorities, including the promotion of economic, social and territorial cohesion, while increasing policy coherence between the EU and the national, regional and local level.

This closer link between EU funding and EU policy priorities would enhance the EU added value of the plans. The steering mechanism would identify those investments and reforms that contribute to goals that cannot be achieved as effectively by individual Member States acting alone. As a result, higher support can be expected under the plans than is currently the case under nationally pre-allocated envelopes for projects with a high EU added-value, such as cross-border (e.g. cooperation projects between Member States' authorities) and multi-country projects (e.g. Important Projects of Common European Interest). This being said, the delivery of more complex cross-border projects such as infrastructure projects connecting two Member States would continue to require a special delivery system. This is further elaborated in the section on the impacts of the options on cross-border.

Having a plan per Member State with a broad eligibility scope and a single set of rules is expected to provide more clarity on funding opportunities and in turn facilitate access to funding of EU businesses and project promoters, including local authorities. The new simplified system would rationalize the approval mechanisms and harmonize the regulatory landscape – whether on audit, eligibility, collection of data, visibility or reporting rules - by providing beneficiaries and programme authorities a simpler and fully aligned regulatory framework across policies. These benefits are expected to be larger for SMEs, which often have limited resources compared to larger companies to navigate complex, heterogeneous programme-specific rules. Increased flexibility will allow to faster address new challenges that will appear during the implementation, by reducing the number of changes to the applicable rules and requirements set out in the basic act. This should reduce the administrative burden at all levels of the implementation system – beneficiaries, implementing bodies and the EU institutions.

The plans would be implemented ensuring value for money and improving the results on the ground through a performance-based delivery model. Payments against the fulfilment of investment and reform objectives (rather than the reimbursement of eligible costs) would allow to speed up disbursements and increase the efficiency of EU spending to achieve more results with the existing resources. This would allow to strengthen the performance dimension of the EU budget in the policy areas currently supported by the funds that would be integrated into the plans as part of Option 1. This would be in line with the calls from the Council to reflect on how to make cohesion policy more performance-based with a view to enhancing its efficiency, building on its own experiences as well as lessons learned from other EU instruments.[33]

Under such an option, the CAP would remain outside of the plans. This would ensure continuity with the current model of the CAP Strategic Plans building on the expertise gained so far by Member States with the implementation of the CAP Strategic Plans. At

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[33] Council conclusions on the Communication on the 9th Cohesion Report, 5 June 2024.

the same time, it would also allow for manageable changes and for outlining responsibilities both at the EU and national level and towards the final beneficiaries with a focus on generating further simplification. Combining targeted direct income support with on-farm investments, knowledge exchange and investments in rural areas (such as business start-ups) can maximise the impact of EU spending to foster farm entrepreneurship and generational renewal. The integration of the interventions to support the provision of ecosystem services also contributes to simplify the administrative requirements associated to these interventions and can also facilitate the fulfillment of the environmental and climate objectives.

While a one fund approach for the future CAP would allow to ensure some continuity while addressing agricultural challenges in a more targeted way, this would come with a more limited possibility to address emerging or unforeseen needs and changing priorities. Irrespective of the options and given the specificities of the CAP (regular payments made to 9 million farmers altogether), budgetary predictability for the CAP will be essential.

Under this option, as well as under option 2, there would be the possibility to have additional harmonization of some key horizontal aspects of policy design as part of the future MFF (e.g., monitoring, performance, audit and control systems, the broader conditionality system). This would create synergies in terms of administrative procedures for Member States, thereby reducing costs.

<u>Option 2 (CAP)</u>

With one CAP Strategic Plan per Member State, the CAP is already the closest to the plans in terms of design. The CAP Strategic Plans have marked a major change in the way the CAP budget is programmed and spent, bringing increased flexibility and responsibility to Member States in addressing regional and local specificities and needs within a set of common EU rules and objectives. As such, the CAP Strategic Plans have shown that the move to single programming per Member State is feasible and an appropriate tool to deliver on the CAP objectives.

The plans would build on the strengths of the CAP Strategic Plans – in particular its governance structure. The multi-level governance and strong regional dimension of the plans would go in line with the current governance of the CAP, which allows for regional managing authorities to be responsible for the implementation of the regional interventions envisaged in the plans, while the national managing authority remains responsible for ensuring the appropriate coordination and guaranteeing coherence and consistency. This would ensure continuity and predictability for Member States's authorities implementing CAP and farmers alike, thereby reducing the need for the respective Member States' authorities to have to adjust their administrative system again (after the big changes required for the CAP 2023-2027). While the complexity of devising a comprehensive national plan (as well as any later amendments) covering many different policy domains would require accrued efforts for national administrations, this would not undermine the coherent approach towards the CAP since the approval of the plans (and any future amendment) would need to address all objectives in a comprehensive and balanced manner.

From a budgetary standpoint, the main advantage in bringing the CAP within the plans would be to apply the same rules to all funds under shared management,

while addressing some specificities for the CAP to preserve the single market and fair competition between farmers. This would mean using the same delivery model with common rules allowing for technical specificities on programming, payments or requirements regarding management and control systems and protecting the financial interests of the Union, including the requirements for farmers or companies in agri-food sector. Already now farmers or rural communities and other rural stakeholders may be at the same time beneficiaries of both the CAP and cohesion policy funds. Bringing the CAP under the plans would allow them to implement their projects under a unified audit and control system, thereby reducing the complexity and administrative burden linked to operating under two parallel systems, while also lowering potential risks of errors, audit duplications and double funding.

Bringing the whole CAP under the umbrella of the plans would be an opportunity to further improve the delivery model of the CAP. While payments are still mainly made based on incurred costs, new performance indicators have been introduced to monitor the progress of implementation. This dual system leads to burdensome reporting requirements. Instead, the future CAP could generate stronger results with less reporting requirements by moving towards performance-based payments. The report on Strategic Dialogue on the future of EU agriculture takes the example of the eco-schemes, a mechanism to trigger greener practices by farmers, to call for linking payments to the fulfilment of quantifiable outputs to provide more meaningful incentives and flexibility to farmers.

From a policy standpoint, bringing the CAP into the plans may enable the use of the EU budget as a catalyst for triggering important reforms to address long-standing challenges in the farming sector and rural areas in general where CAP tools are not fit for purpose. The Vision for Agriculture and Food underscores the need for reforms, from generational renewal to strengthening farmers’ position in the food value chain. For instance, tackling the main entry barriers for farmers – such as access to land and access to capital – requires reforms at national level. Other areas of reforms concern skills for better career opportunities, better availability and access to essential services and broader digital connectivity, better living and working conditions, gender equality and social inclusion, as well climate mitigation and adaptation and environmental protection. By strategically linking reforms with investments, the plans could become a catalyst for triggering those reforms that will strengthen the attractiveness, competitiveness and resilience of the agricultural sector and rural areas, in line with the priorities of the Vision on Agriculture and Food.

At the same time, linking disbursement with pre-set milestones and targets in the area of reforms could compromise the regularity of EU disbursements and finally the stability of support given to farmers. This would in particular be of concern for all instruments directly supporting farm income (e.g., direct payments,) on which farmers directly rely for their livelihood. It would therefore require introducing specific rules to protect the interest of final beneficiaries.

The plans would also allow Member States to better exploit the complementarities that exist between cohesion policy and rural development in the CAP. This would allow Member States to provide a more effective and comprehensive support to rural areas. As the Vision for Agriculture and Food puts it, the contribution of Cohesion Policy to the economic diversification and the provision of infrastructure and associated services can play a greater role to help rural areas to remain attractive places to live for farmers, their families and other rural inhabitants, as well as stimulate tourism.

Nevertheless, in order to fulfil the CAP policy objectives, to preserve the integrity of the single market, and ensure fair competition between farmers, to ensure the stability and predictability of support farmers need, the full integration of the CAP (Option 2b) would require the introduction of specific rules to accommodate the delivery of instruments directly supporting farm income (including direct payments,) on which farmers rely for their livelihood.

Integrating only the EAFRD into the Plans (option 2a) would mean a step backwards from the current CAP Strategic Plans (where both Pillars of the CAP have been bro**ught under a single umbrella**) and strategic planning approach. It would only partially help better exploit the synergies with other EU policies such as cohesion, which are important for the development of thriving rural areas as only a limited share of EAFRD budget is addressing the wider needs of rural areas beyond the farming sector. From the administrative point of view, Member States would need to work with two different programming instruments and delivery structures, one under the plan and one under the current EAGF. While this could come with increased administrative costs, the latter would be mitigated considering that the plans would build on the current CAP governance structure (which is particularly relevant for the EAFRD).

The interventions to be financed under both Pillars would need to be carefully designed to avoid overlaps. For example, this would concern interventions linked to supporting young farmers (which can currently receive complementary income support under EAGF and start-up aid under EAFRD) as well as environmental measures (where farmers can receive complementary payments for eco-schemes in the EAGF and can also apply for multiannual environmental projects under EAFRD). This would be crucial to avoid that all the efforts carried out in the current programming period to increase the complementarities among different CAP tools would be negatively affected and ensure a more efficient use of EU funding.

<u>Option 3 (Modernisation Fund)</u>

Integrating the Modernisation Fund into the plans and, by extension, into the EU budget financial architecture would fundamentally alter its set-up and operation, simplifying the EU's financial landscape. A single coordinating framework would address the overlaps that currently exist between the Modernisation Fund and other EU spending programmes, such as cohesion policy, ensuring a more efficient use of EU funds, while facilitating access to funding by project promoters. Furthermore, the link between reforms and investments would help maximise the value of every euro spent through nationally pre-allocated envelopes (as explained earlier for Option 1).

It would make applicable existing budgetary safeguards concerning audit and control systems. As highlighted by the European Court of Auditors[34], the Modernisation

[34] ECA Special report 05/2023: "The EU's financial landscape: A patchwork construction requiring further simplification and accountability".

Fund is currently managed completely outside the EU budget, with no oversight by the European budgetary authority and European Court of Auditors. This poses challenges in terms of accountability and sound financial management, especially given the significant size of the instrument. Integrating the Modernisation Fund within the next MFF and the future plans would ensure that supported projects are subject to the same democratic scrutiny and financial safeguards as other nationally pre-allocated envelopes, in terms of transparency, performance monitoring and protection against fraud, corruption and conflicts of interests.

Most importantly, it would also ensure the respect of the rule of law. As an off-budget programme, the Modernisation Fund is not currently subject to any rule of law conditionality nor the Conditionality Regulation – which is different from other ETS instruments. This allows Member States to continue receiving funding even in case of breaches of the principles of the rule of law. Alongside the Conditionality Regulation, which will continue to apply as a complementary instrument, the next MFF will provide for a streamlined and harmonised conditionality system for all EU funds allocated to Member States. Integrating the Modernisation Fund into the future plan would, in this respect, address existing double standards and enhance the overall coherence of EU action. This would go in line with the rationale of the Political Guidelines, which strongly underscore that the respect of the rule of law is a must for EU funds.

The main risks of the Modernisation Fund's integration into the plans could be a loss of the targeted focus, a risk of reallocation and the adjustment costs of Member States. It would be essential to preserve the targeted focus of the Modernisation Fund for specific Member States. In this regard, integration into the plans could broaden the toolbox available for the much-needed modernisation of the energy sector in lower income Member States, as these would be able to more easily exploit synergies with other policy areas (e.g. cohesion policy) and support the completion of investments with reforms in the energy sector. Likewise, stability and predictability of funding for the energy transition would need to be ensured in a context of a single national envelope. The Commission would need to ensure that all objectives of the Modernisation Fund are fulfilled in a comprehensive manner as part of the plans. A performance-based delivery model, with clear milestones and targets set from the outset, would also allow to track outcomes and ensure the auction proceeds are used effectively towards their intended purpose. Finally, Member States would need to move away from ad hoc investment proposals to implementing reforms and investments under the single plans. While this could mean losing a degree of flexibility compared to the status quo and increasing administrative complexity, this would be mitigated by a performance-based delivery model (allowing faster disbursements than under a cost-based delivery model) as well as swift amendment procedures of the plans.

<u>Impacts on administrative costs of the options on the scope</u>

In the absence of a dedicated analysis of costs, the quantitative analysis is based on the data of the second interim report on the assessment of the administrative costs and administrative burden in the management of the CPR funds 2021-2027. Annex 10 provides a more detailed explanation of the approach taken.

A reduction factor is applied to Options 1 and 2, reflecting the expected simplification from integrating the concerned spending programmes into the plans which follow the same rules (e.g. delivery model; management mode; financial management, etc.). The reduction factor varies between Options:

- It is higher for Option 1 (50%) considering the similarities that already exist between these funds which are covered by the CPR;
- Option 2a also assumes a 40% reduction factor given the similarities that already exist between Pillar II of the CAP and cohesion policy.
- Option 2b assumes a 30% reduction factor, considering the need to cater for the specificities of direct payments.

Setting a reduction factor is inherently difficult and represents a methodological assumption. However, these factors rely on the existing data, in particular the fact that the differences that exist per fund within the CPR have large differences between themselves, showing the potential for simplification: EUR 37 968 per EUR million spent for the total CPR funds vs EUR 18 625 per EUR million spent for the ESF+, the lowest figure for a fund in the category (a reduction factor of around 50%). While the ESF+ has a much stronger homogeneity in terms of interventions than other funds (e.g. ERDF), this does not seem to be the driving factor behind the lower administrative costs since other funds with a reduced scope (e.g. home funds) also report high administrative costs.

To make sure these reduction factors are as realistic as possible, they are not based on the figures calculated in the RRF mid-term evaluations as the methodologies were not equivalent (CPR funds set at EUR 37,968 per EUR million spent and RRF with EUR 2,500 per EUR million spent) and because the future plans will continue to rely on a multi-level governance structure and shared management.

Estimates

Option	**Total administrative costs per million EUR spent**
Status quo	37,968
Option 1	18,984
Option 2a	22,781
Option 2b	26,578

From the above, it seems that both **Option 1 and Option 2 would significantly reduce administrative costs for Member States compared to the status quo**. Options 1 and 2a would bring the biggest reduction, followed by Option 2b.

7.2. How do the options compare?

Effectiveness

SO1 – Ensuring coherence between EU priorities, national and regional actions.

A plan per Member State would ensure more coherent, coordinated programming of pre-allocated envelopes, reflecting the different needs at national and regional level while ensuring support for EU priorities identified in the steering mechanism. All options would not only reinforce policy coherence across all governance levels, through a dual system driving the programming of the plans:

- With common objectives set at EU level for all Member States and regions;
- A steering mechanism to address national and regional challenges, relying on the country-specific recommendations of the European Semester as well as other recommendations and documents relevant for the policy areas covered by the plans – including in the field of agriculture, migration and security, etc.

Furthermore, through the strategic link between reforms and investments, all options would ultimately increase the EU's competitiveness by fostering an investment climate that supports innovation and resilience. This would also be in line with the ambition set in the Competitiveness Compass[35], which calls for action on horizontal enablers, such as removing barriers to the single market as well as simplifying the regulatory environment through a refocused EU budget.

Option 1 would already significantly contribute to aligning EU funding with key EU priorities, including the promotion of economic, social and territorial cohesion, while tailoring further EU interventions to Member States' and regional specific needs. This close link between the steering mechanism and the plans would ensure that the latter support investments and reforms with a strong EU added value.

Option 2 would reinforce policy coherence even more as bringing the CAP under the umbrella of the plans would allow Member States to have further possibility to contribute (via the EAFRD in Option 2a, or the whole set of CAP instruments under Option 2b) to overarching EU priorities such as food security and natural protection, and social and territorial cohesion. While option 2a would reduce the internal coherence of the CAP (which would be ensured under 2b, in both cases, the CAP would continue to maintain a strong focus on specific policy objectives that respond to the challenges of the agricultural sector and rural areas and the orientations outlined by the Vision on Agriculture and Food. Option 2 would also contribute to the Vision's aim of a better alignment between national and EU policies.

Finally, with a scope similar to cohesion policy funding, the integration of the Modernisation Fund (**Option 3**) would further contribute to enhancing the policy coherence of the plans – with Option 3b providing more benefits than Option 3a.

SO2 – Creating a simple and cost-effective framework delivering on EU priorities.

All options are expected to **reduce the administrative costs for Member States and regions, albeit to different extents. Option 1** would reduce the number of programmes from more than 400 to a plan for each Member State. The move towards single-step programming in cohesion policy, based on a single set of rules, is also expected to reduce delays in the start of programmes, without prejudice to a strong multi-level governance and regional dimension of the plans. Rather, it would combine the strengths of cohesion policy and the RRF and build on existing structures to reduce adjustment costs for Member States. This would ensure EU funds address real needs and create a sense of common ownership among the partners involved.

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[35] https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en

Option 2a is expected to bring some further simplification compared to Option 1, when considering the similarities that exist between the CAP and the CPR. From the administrative point of view, however, Member States would need to work with two different programming instruments and delivery structures for the CAP, one under the plan and one under the current EAGF. While this could entail administrative costs for Member States, the latter would be mitigated by the administrative cost reductions that would be brought by the design of the plans (e.g. performance-based delivery; governance structure building on the CAP governance). To reduce the risk of fragmentation, interventions supported under the plans and the EAGF (which would remain separate) would need to be carefully designed.

While **Option 2b** would also bring additional simplification compared to the status quo, administrative arrangements would require the introduction of specific rules under the plans to preserve the integrity of the single market and fair competition between farmers. Direct payments to farmers as well as market measures where technically applicable would be subject to the same rules as the rest of the plan (e.g. same audit and control rules; payment rules; delivery model). Funding intended for direct income support would however have to follow different rules to preserve the specific nature of the CAP support, in particular to ensure the regularity of EU disbursements and finally the stability of support given to farmers. Under Option 2b, it is likely that some administrative adjustments would be needed at Member State level (planning and payment authorities). In addition, the complexity of devising a comprehensive national plan (as well as any later amendments) covering all policy domains would require accrued efforts for national administrations. However, this option would ensure a higher coherence of EU spending against the CAP objectives than 2a.

The integration of the Modernisation Fund into the plans (**Option 3**) is likely to bring additional complexity and administrative costs to Member States. However, this would need to be balanced against the gains that would stem from the increased protection of the EU's financial interests following the integration of the Modernisation Fund into the plans, and the simplification of the EU's financial landscape, in line with the Political Guidelines.

Finally, having a plan per Member State with a broad eligibility scope and a single set of rules (established in one regulation) is expected to provide more clarity on funding opportunities and in turn facilitate access to funding of EU businesses (including SMEs) and project promoters. The benefits are expected to be higher for **Option 3** (integration of the Modernisation Fund) compared to Options 1 and 2.

SO3 – Meeting both long-term policy goals and emerging policy priorities.

Single national envelopes would ensure the efficient and flexible allocation of funding across policies areas, allowing Member States to address new policy priorities such as defence, while improving the coherence with other EU policies. They would also make it easier to reallocate resources to respond to unforeseen challenges or shifting policy needs without needing to re-open the legislative framework.

Option 1 would allow Member States to more flexibly design a more comprehensive plan, tailored to the challenges they face. For example, Member States at the EU's external borders could dedicate a larger share of their envelopes to address migratory/security challenges, without undermining the delivery of other objectives such as cohesion policy, considering that home affairs interventions also help reducing economic, territorial and social disparities (for e.g. between those regions under higher pressure at the borders of the EU and others). Before approving the plans, and any subsequent amendments, the Commission would check that Member States have addressed all relevant objectives.

Option 2 would add further flexibility of nationally pre-allocated envelopes albeit to a different extent. Under Option 2a, Member States would be able to better exploit the synergies that exist between support through some tools of the EAFRD to rural areas beyond farming and cohesion policy to support the development and attractiveness of rural areas, but to the detriment of synergies within the CAP (between first and second pillar) which are also very important for the farming community. Under Option 2b, Member States would have at hand an even wider range of tools to deliver on the CAP objectives. At the same time, to ensure the integrity of the single market and preserve fair competition between farmers, the integration of the CAP into the plans would need to be accompanied by specific rules.

Finally, the integration of the Modernisation Fund (**Option 3**) would further contribute to enhancing the efficiency and flexibility of nationally pre-allocated envelopes – with Option 3b providing more benefits than Option 3a.

Figure 4. Summary of the effectiveness of the options on the scope – qualitative assessment (from "+" less effective to "++++" most effective)

Specific objectives	Option 1	Option 2a	Option 2b	Option 3a	Option 3b
SO1	+	+	++	+++	++++
SO2	+	+	++	++	++
SO3	+	+	++	+++	++++

Coherence

All three options would contribute to reducing overlaps between EU spending programmes, hence ensuring a more coherent use of EU funding. Option 1 would allow to ensure better policy coherence across cohesion policy funds, the SCF, HOME funds and EMFAF. This could lead to a more impactful EU budget spending to address important challenges, such as boosting the EU's competitiveness. **Option 2a** would take this further, by also tackling the limited overlaps that exist in the EU budget's support to rural areas (beyond farming) – mainly, between the EAFRD and cohesion policy funds – and hence provide a more integrated and comprehensive support to rural areas. While option 2a would reduce the internal coherence of the CAP while bringing some synergies with cohesion, **Option 2b** would bring additional coherence to CAP spending while ensuring more synergies with other policies. Finally, the integration of the Modernisation Fund (**Option 3**) would reduce the overlaps that currently exist with cohesion policy.

The steering mechanism would also ensure coherence between the plans and other EU spending programmes, such as the European Competitiveness Fund, the Global Europe Fund or a dedicated instrument for cross-border projects in the energy and transport sector. For example, the European Competitiveness Fund could provide advisory support for the setting up of IPCEIs, which could be financed through the national envelopes. As for the Global Europe Fund, the plans will provide support to tackle migration, security or cross border cooperation in conjunction with the priorities financed in neighbouring countries. Regarding transport, Member States could use their plans to invest in national sections of the TEN-T, complementing the cross-border links financed by a dedicated instrument for cross-border projects.

At the same time, having a simplified framework for nationally pre-allocated envelopes should allow to better exploit synergies with other instruments of the EU budget, including the European Competitiveness Fund. Both instruments would include rules allowing to capitalise on such synergies (e.g. rules on the use of cumulative funding). Looking beyond the EU budget, having a plan per Member State could facilitate consistency with national or regional sources of funding, thereby maximising the value of every euro spent in the EU budget. Finally, combining different funds under one single envelope should increase the leveraging effect of the EU budget, helping to mobilise private investment.

7.3. Options to support cross-border projects

Under Option 4a (cross-border projects within the plans), the closer link between EU funding and policy priorities of the plans would enhance their cross-border dimension. The steering mechanism would identify cross-border projects with a high EU added-value. As a result, one can expect higher support under the plans for both cross-border projects and for national projects of high EU relevance than is currently the case under nationally pre-allocated envelopes for cross-border projects.

However, the implementation of cross-border infrastructure projects through the plans would be more complex and costly for both Member States' authorities and project promoters. For the Member States to align their investment agendas with those of neighbouring countries would be a lengthy process, both during the initial plan negotiations and in case of amendments. Germany for instance would have to coordinate its national plan with eight neighbouring Member States; Hungary with five. In cases where the process is delayed in one or more Member States, this may cause knock-on delays. While the Commission could support these coordination efforts – both during the negotiations and through the provision of technical assistance via the plans –, the burden for Member States' authorities and would remain significant. Similarly, this option could also significantly increase the administrative burden for project promoters, who would need to implement their cross-border projects under several national plans and report within separate reporting and audit schemes (one per Member State).

This being said, the plans could cater for complementary investments to cross-border sections and to projects of high EU relevance. These could include sections of national interest on the trans-European networks as well as certain energy projects, such as national grid reinforcements that support cross-border interconnections. Since these projects would be carried out within the territory of a single Member State, their implementation would not entail the additional costs mentioned above for cross-border projects involving more than one Member State. These envelopes could also be very relevant when combined with Union funding in the context of cross-border renewable energy auctions that are centrally managed (auction-as-a-service model).

Under Option 4b (separate instrument) directly managed EU support would ensure the predictability and stability needed by complex cross-border projects. Awarding funding directly at EU level would allow to maintain the long-term political commitment to strategic projects, to create sufficient certainty, predictability and stability for other investors. Direct management would also facilitate a coordinated implementation of military mobility projects to facilitate the seamless and rapid transport of troops and military equipment across the EU.

The competitive allocation of grants in a phased approach under direct management, while ensuring predictability of funding, allows to focus on the most mature (phases of) projects. Furthermore, in case of significant delays during implementation or if the project costs are lower than initially anticipated (for instance through successful public procurement procedures), it would be important to allow to free the amounts not used by beneficiaries in order to re-allocate them to other projects. The "use it or lose it" principle of the CEF has ensured that funds are optimised within the programme and are reallocated to other projects offering best EU added value. For CEF 2014-2020, the "use it or lose it" approach will allow to increase programme absorption from about 80% to 90% based on current estimates.

Direct management of complex cross-border projects would also reduce administrative costs for Member States' authorities. The overall cost of direct management is also low thanks to economies of scale under a cost-based delivery model.[36] This is confirmed by the high productivity ratio of an average of EUR 25 million per full-time equivalent annually. This covers the entire lifecycle of programme management from the publication of the call until audit, including feedback to policy and reporting. In terms of cost-efficiency, the direct management of cross-border projects in transport and energy represents 0.39% of the EU funds over the 2021-2027 period including all coordination and management costs incurred in the Commission[37].

This option would however require efforts to ensure consistency with the transport and energy investments that would be included in the plans. To avoid overlaps and complexity, it would be important to define a clear scope – both for this separate instrument and other EU spending programmes (in particular, the plans and the European Competitiveness Fund). The option would also severe the link with reforms that would nonetheless be important for the completion of cross-border infrastructure investments (e.g. public procurement).

8. HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED?

This initiative will be monitored through the performance framework for the post-2027 budget, which is examined in a separate impact assessment. The performance framework

36 For the CEF I programme (2014-2020), see also the Mid-term evaluation of the Connecting Europe Facility (CEF) - SWD(2018) 44 final/2.

37 Source: Commission Staff Working Document: Cost-benefit analysis for the delegation of the management of the 2021-2027 EU programmes to executive agencies, SWD(2021)20 final of 12.02.2021

provides for an implementation report during the implementation phase of the programme, as well as a retrospective evaluation to be carried out in accordance with Article 34(3) of Regulation (EU, Euratom) 2024/2509. The evaluation shall be conducted in accordance with the Commission's Better Regulation Guidelines and will be based on indicators relevant to the objectives of the programme.

The Performance Regulation will provide ca. 900 performance output and result indicators that will enable to monitor the performance of the budget. The list of performance indicators will be structured around a number of policy areas – such as energy, housing and infrastructure, environment and climate, agriculture, fisheries – and related intervention fields expected to be funded by the EU budget, including the national and regional partnership plans. This list of indicators will enable to monitor the performance of the Fund against outputs and results vis-à-vis the specific objectives set in the national and regional partnership plans regulation. The list of performance indicators will be structured around a number of policy areas and related intervention fields expected to be funded by the EU budget, including the national and regional partnership plans.

ANNEX 1: PROCEDURAL INFORMATION

1. LEAD DG, DECIDE PLANNING/CWP REFERENCES

The lead DGs are DG REGIO, DG EMPL, DG AGRI, DG MARE, DG HOME, DG MOVE.

There is no DECIDE reference number. The proposals for the post-2027 Multiannual Financial Framework are listed as Item 44 in Annex I of the Commission Work Programme 2025, under the headline “Delivering together and preparing our Union for the future”.

2. ORGANISATION AND TIMING

Given the time constraints, no call for evidence was published for this initiative.

This impact assessment was coordinated by an Inter-Service Steering Group (ISSG), involving the following Commission services: Secretariat-General (SG); Legal Service (SJ); Directorate-General for Agriculture and Rural Development (AGRI); Directorate-General for Budget (BUDG); Directorate-General for Climate Action (CLIMA); Directorate-General for Competition (COMP); Directorate-General for Communications Networks, Content and Technology (CNECT); Directorate-General for Education, Youth, Sport and Culture (EAC); Directorate-General for Economic and Financial Affairs (ECFIN); Directorate-General for Employment, Social Affairs and Inclusion (EMPL); Directorate-General for Energy (ENER); Directorate-General for Environment (ENV); Eurostat (ESTAT); Directorate-General for Migration and Home Affairs (HOME); Directorate-General for International Partnerships (INTPA); Joint Research Centre (JRC); Directorate-General for Justice and Consumers (JUST); Directorate-General for Maritime Affairs and Fisheries (MARE); Directorate-General for Mobility and Transport (MOVE); Directorate-General for Regional and Urban Policy (REGIO); Directorate-General for Health and Food Safety (SANTE), Reform and Investment Task Force (SG REFORM).

The Inter-Service Steering Group met four times in 2025: on 23 January, 7 February, 21 March, 23 April. It was consulted throughout the different steps of the impact assessment process; notably on the questionnaire for the open public consultation and the draft staff working document.

3. CONSULTATION OF THE RSB

The draft report was submitted to the RSB on 7 July 2025. The RSB opinion was received on 10 July 2025, where the Board decided, exceptionally, to issue an Opinion without qualification.

The recommendations of the Board were taken into account as outlined in this table.

Key issue and recommendation	Changes to the impact assessment report
On scope: The report should better cover policy substance in the context, problem definition	The policy context of the impact assessment was clarified in the introduction, in particular to demonstrate the future multiannual financial

and objectives, beyond covering the financial architecture.	framework is an opportunity to facilitate the delivery of the policy objectives of the EU and its Member States, by ensuring a closer alignment with the financial architecture of the EU budget. The scope of the impact assessment was clarified in the introduction, including regarding the 3 HOME funds, CEF and LIFE programmes. The summary of options was revised to reflect adequately the role of cross-border projects in the intervention logic.
On problems and on the use of evaluations: The identification of problem drivers and problems are not sufficiently supported by evidence.	More developed analysis was included in the problem definition, notably on the link between reforms and investments (Problem 4), the limited uptake of financial instruments (Problem 1), the low uptake of cross-border problems (Problem Driver 7) and the need for quality data at regional/local level to ensure meaningful involvement at the subnational level (Problem Driver 4).
On the intervention logic and objectives: The report should establish a clear link between the specific objectives, the problems and the problem drivers [and their relation to the Performance and Monitoring Framework.	The report clarified the link between the problems, problem drivers and objectives (Section 4.2). The link with the Performance Regulation was clarified.
On options: The report does not adequately identify the full range of options to address all the problem drivers.	The presentation of choices was more closely linked to the policy challenges facing the various policies and sectors. A description of the main elements of the common set of rules for the Plans was included. On the options on the scope, the report clarified that it does not aim to discuss whether existing (sub-streams) of programmes are intended to be re-oriented or discontinued but rather to assess whether they could fit within the scope of the plans from a policy perspective. Additional clarifications were introduced regarding the digital strand of CEF, which is covered in the impact assessment for the European Competitiveness Fund.
On the comparison of options and cost-benefit analysis: The report does not adequately assess the	The analysis was revised in line with the Board's recommendations.

costs and benefits of the options. Efficiency is not sufficiently considered in the comparison of the options.	In particular, regarding the impacts of the options on the delivery model, the report further elaborated on the analysis of shared management, in particular with regards to securing meaningful involvement of regional and local authorities and reducing burden. The report also acknowledged the limits in relying on result indicators considering the timeframe of the plans and explained how these limitations could be mitigated. The report elaborated on the links between internal coherence and applying the same delivery model and management mode to the plans.
On coherence: The report does not sufficiently specify how the funds with nationally pre-allocated envelopes link with other parts of the post-2027 MFF, like the Competitiveness Fund, Single Market and External Action.	The report further specified how the funds with nationally pre-allocated envelopes link with other funding instruments of the post-2027 MFF – notably the European Competitiveness Fund, the Connecting Europe Facility and the Global Europe Fund.
On governance: The report does not sufficiently describe the governance mechanisms.	The report explained how alignment between the EU priorities and Member States' individual priorities would be achieved through the dual system driving the programming of the plans. The report clarified that the governance and set-up of the steering mechanism is not within the remit of this impact assessment.
On future monitoring and evaluation: The report is not clear what monitoring and evaluation arrangements will be put in place to measure the achievement of the objectives.	The report clarified the monitoring and evaluation arrangements of this initiative, in line with the Performance Regulation.

4. EVIDENCE, SOURCES AND QUALITY

The impact assessment is based on several sources. This includes:

- 9^{th} report on economic, social and territorial cohesion;
- The mid-term evaluation of the Recovery and Resilience Facility;
- Report of the Strategic Dialogue on the future of EU agriculture;
- Spending review for the 2021-2027 multiannual financial framework;
- Ex post evaluation of the 2014-2020 cohesion policy;
- ESF+ mid-term evaluation [ongoing];

- Mid-term evaluation of the ERDF, CF, JTF [ongoing];
- Study on the assessment of the administrative costs and administrative burden in the management of the CPR funds 2021-2027 [ongoing];
- Study on the new delivery model of the CAP [ongoing];
- Study on simplification and administrative burden for farmers and other beneficiaries under the CAP, published on 14 May
- Mario Draghi’s report on the future of EU competitiveness;
- Enrico Letta’s report on the future of the Single Market;
- Niinistö Report on Strengthening Europe’s Civilian and Military Preparedness and Readiness
- Commission Communication on a Competitive Compass for the EU;
- The open public consultation, carried out between 12 February 2025 and 6 May 2025.

ANNEX 2: STAKEHOLDER CONSULTATION (SYNOPSIS REPORT)

1. Overview of the stakeholder consultation activities

The Commission undertook different activities to engage stakeholders and gather their views to inform this impact assessment. The following activities have taken place or are planned, including workshops and ongoing studies:

- **Public consultation** – running from 12 February to 7 May 2025 (midnight Central European Time).

- **Citizens' panel on the next European budget**: From March to May 2025, the Commission organised a Citizens' Panel on a New European Budget as a way for citizens to engage with EU institutions and have their say on the EU policymaking process. The event included three sessions gathering 150 randomly selected citizens to help the EU decide how to spend its money in the future, including an in-person session from 28-30 March, a second online session (April 25-27), and a third and final session in Brussels (May 16-18), where 2 volunteers officially handed over their recommendations to the Commissioner for Budget, Anti-Fraud and Public Administration. The participants, coming from all 27 EU countries and representing the EU's diversity, reflected on where the EU Budget could bring the most added-value to Europeans. In parallel, the Citizens' Engagement Platform, an online discussion forum, enabled additional contributions from the general public.

- **Annual Budget Conference**: The event on 20 and 21 May 2025 brought together high-level speakers – European and global policymakers, researchers, representatives of think tanks, civil society and businesses leaders – to debate a broad range of topical questions on the next long-term budget.

- **Tour d'Europe**: During the first half of 2025, Commissioner for Budget, Anti-Fraud and Public Administration, Piotr Serafin, travelled across the EU to consult decision-makers, regions, citizens, businesses and other relevant stakeholders on the EU budget. These trips featured visits of many EU-funded projects in diverse fields – from education to research, defence to agriculture and more.

- In January 2023, the Commission established the **Group of high-level specialists on the Future of Cohesion Policy**, whose work significantly contributed to the reflections on the future of cohesion policy, and which handed recommendations to inform the policy's future direction.

- **Position papers**: Stakeholders have been sharing their position papers with the Commission throughout the last years, which the Commission used to inform the policy-making of the future of cohesion policy.

- In June 2024, the Commission launched a preparatory study on the future EU funding in the areas of employment, skills and social inclusion, entailing extensive targeted stakeholder consultations and a survey.
- The Commission also conducted several consultation activities to gather stakeholder views on the CAP post 2027.

2. **Summary of the open public consultation**

The public consultation's questionnaire was based on both closed and open questions, addressing policy challenges, obstacles to budget implementation, the effectiveness of current EU policies across various funding areas, and potential measures to improve the efficiency and effectiveness of the EU budget. The questionnaire also included targeted questions on the continued support of all regions and communities, effective stakeholder involvement and administrative and institutional capacity. Finally, stakeholders had the opportunity to submit additional documents. An external contractor (EY Advisory S.p.A.) helped process and analyse the stakeholder replies to this public consultation. For the analysis, both quantitative and qualitative methods were used to ensure a comprehensive and systematic interpretation of the survey responses.

The Public Consultation received **2501 replies ([1])** and **613 position papers**. The highest number of replies (17% of replies) comes from Romania followed by Germany (16%), Belgium (8.3%), Poland (7.9%), France (7.6%) and Italy (6.7%). Member States with the lowest number of replies are Cyprus, Malta and Ireland. Among the respondents, around 34.5% are public authorities, of which local authorities account for around 35%. EU citizens make up 26.2%. NGOs (12.3%), academic/research institutions (6.8%), companies/businesses (5.3%) and business associations (4.6%) are also represented. Replies from non-EU citizens, trade unions, and environmental organisations are less numerous, with a rate of less than 1% of the replies each. Most replying organisations, close to half of the sample (47%), have more than 250 employees. Additionally, 38.3% are medium or small sized, with between 50 and 250 employees. Finally, around 15% have fewer than 10 employees. Overrepresentation of specific countries was considered when interpreting findings; the analysis ensured that diverse perspectives from less-represented stakeholder types and countries were given equal analytical weight and proportionately reflected in the conclusions.

Main conclusions

There is broad agreement across stakeholders on the need for simplification, greater flexibility, and support for all regions based on their specific needs. However, interpretations of these themes may vary depending on the stakeholder type.

Simplification and flexibility are the most frequently cited enablers of a more effective and efficient EU budget. Across virtually all questions, stakeholders called for fewer, clearer and simpler rules (supported "to a large extent" by 75.7% of respondents), and for greater flexibility to tailor funding instruments to local needs and to react to crises and emerging needs (supported "to a large extent" by 44.4% of respondents). This is particularly emphasised by public authorities, trade unions and businesses, with similar support among citizens, and public authorities' respondents too (35 and 38% respectively). Nonetheless, calls for simplified access to funding and streamlining programme management were voiced across all types of stakeholders. Smaller municipalities, SMEs, NGOs, and grassroots actors were identified as particularly affected by the complexity of EU funds. Suggestions linked to this theme included the following:

For simplification:

- Introducing fewer, clearer and more harmonised rules across instruments,
- Expanding the use of simplified cost options and reducing verification layers, and
- Deploying digital tools for application, reporting and monitoring processes, including for example one-stop shops and a unified digital portal for applicants.

For flexibility:

- Increasing the ability to reallocate funds across objectives and programmes,
- Embedding adaptive programming mechanisms to respond to crises or transitions, and
- Providing longer planning horizons with stable, predictable rules.

The need for enhancing administrative capacity is a recurrent observation. Limited capacity at all levels is viewed as a key obstacle to fund absorption and effectiveness. A majority of respondents emphasised the need for tailored training, long-term support for local administrations, and investment in public sector skills aligned with digital, green, and inclusive transitions. Calls to reduce administrative burdens were widespread, particularly from SMEs, NGOs and regional governments. Key takeaways linked to this theme included:

- Investing in tailored training and technical assistance for public officials,
- Supporting international exchange schemes and communities of practice, and
- Improving sustainability and predictability of capacity-building efforts.

Addressing structural disparities, including persisting social, economic, regional and territorial disparities, remains a top concern. This includes addressing both territorial disparities and social exclusion. Stakeholders - particularly NGOs and regional authorities - emphasised the need to reduce intra- and inter-regional inequalities, including disparities in access to services, employment, education, and housing for vulnerable groups. EU citizens also pointed to the importance of ensuring that EU funding supports people in structurally disadvantaged areas, such as the long-term unemployed, youth, migrants, and ageing populations. The majority of respondents converged around the view that support should be based on context-specific needs. A few of the suggestions linked to this theme included:

- Targeting support based on needs and challenges,
- Maintaining place-based approaches to address regional challenges, and
- Strengthening support for lagging regions and structurally disadvantaged areas.

Enhancing multilevel governance and stakeholder participation also emerged as a clear priority. Respondents advocated for deeper and earlier involvement of regional and local authorities, civil society organisations, SMEs and citizens in the design and delivery of EU funding (reported by 50.4% of responses). This includes the systematic use of participatory tools and co-creation processes, reflecting strong support for the partnership principle. In particular, NGOs and trade unions advocated for stronger participation in governance, calling for recognition as co-creators of EU programmes, not just implementers. Public authorities and businesses, while supportive of stakeholder involvement, tended to favour more structured consultation mechanisms rather than opening formal governance roles to civil society actors. Some saw expanded participation as potentially slowing decision-making or complicating accountability frameworks. The main suggestions linked to this theme included:

- Systematising the involvement of local and regional authorities in programming,
- Expanding co-creation processes, participatory budgeting and feedback loops, and
- Enhancing visibility and recognition of civil society and SMEs as co-creators.

Additionally, other cross-cutting priorities emerged across stakeholder groups and Member States. These included the need to:

- increase transparency, communication, and accessibility of funding (in particular through centralised portals and simplified guidance),
- maximise impact through stronger performance orientation, flexibility and territorial tailoring,
- foster inclusive and participatory governance to enhance legitimacy, ownership, and local impact, and
- improve coherence across instruments and ensure alignment with national reforms through partnership-based planning and – whenever appropriate – regionalised implementation.

Stakeholders also provided their views on the most pressing policy challenges to be addressed in the future, and support for the green and digital transitions, addressing social and regional disparities and ensuring a fair and stable access to energy supply were identified as key priorities for future investment. Climate change emerged as the most pressing challenge (deemed “very important” by 58.2% of respondents), especially for academia, NGOs and citizens. Respondents also emphasised the need to upskill public administrations and to strengthen regional capacities for green and digital transformation. Stakeholders stressed the importance of policies that promote innovation and address the digital divide, particularly for SMEs and rural areas, as well as the digitalisation of the public administration, services and justice systems. Contributions also underline the need to better align cohesion policy with strategic EU-level goals, particularly the green and digital transitions and inclusiveness. In the same question, the other challenges most frequently identified as very important by the majority of respondents were: “securing an affordable, sustainable and secure energy supply” (51% of the total respondents) and persisting social, economic, regional and territorial disparities” (50.3% of respondents, 49% of the public authorities and 52% of the EU citizens replying to the consultation). The security and price of energy supplies was flagged as a source of significant concern for businesses and for citizens, with 86.5% and 84% of these, respectively, considering this challenge as very important or important.

Suggestions linked to the green and digital transformation included:

- Investing in regional green and digital infrastructure and innovation ecosystems,
- Upskilling and reskilling public administrations and workforce, and
- Mainstreaming green and digital priorities across all EU funding instruments.

Respondents, in particular trade unions, business associations and public authorities, highlighted “labour and skills shortages, the need for upskilling and reskilling, and the unpreparedness of education and training systems for the 21st century” as very important challenges (considered “very important” by 49.2% of the total respondents). By stakeholder group replying to the consultation, this was considered very important by 54% of the businesses associations, 51.56% of the public authorities and 46.3% of the EU citizens. Issues of equality and inclusion were also often raised in open-ended questions inviting respondents to elaborate on policy challenges. NGOs and EU citizens emphasised the importance of aligning EU policies with the European Pillar of Social Rights (EPSR) and ensuring the rights of persons with disabilities. Migration and asylum management were also highlighted, particularly the need to address labour shortages by supporting training and integration for migrants and asylum seekers.

Moreover, stakeholders shared their views on other specific obstacles to the EU budget achieving its objectives, with more than half of respondents considering the following as influencing “somewhat” or “to a large extent”:

- overly complicated governance and distribution of funds (78% of the public authorities replying to the consultation, 77% of the EU citizens and 77% of the businesses associations, showing the homogeneous perception among stakeholders).

- the lack of consistency and effectiveness to deliver on EU policy priorities (considered as an obstacle by 54.5% of respondents, more predominantly among EU citizens and business associations, with 60% and 58% of them, and by 50% of the public authorities), and
- national regulatory environments rendering EU funding less effective (considered by 55% of respondents, with predominance among public authorities, 62.5% of them, followed by 56% of the business associations, and 53% of the EU citizens replying).

Additional obstacles were similarly highlighted by stakeholders. with more than 45% of stakeholders indicating the insufficient focus on achieving results, the insufficient alignment with national policies, the insufficient focus on projects with the highest EU added value, and the low absorption of funds and insufficient number of high-quality projects as obstacles to some or to a large extent. An insufficient focus on achieving results was more predominantly seen "somewhat" and "to a large extent" as an obstacle among the citizens replying to the consultation (53.8% of them) followed by businesses associations (48.6%) and public authorities (49% of them). Other main obstacles raised in open text fields included bureaucracy and administrative burdens (by 64 open replies), inadequate involvement of local and regional actors in the governance of EU funding, often leading to a misalignment of projects with local needs (mentioned in 51 open replies), and a lack of flexibility and adaptability in the design and execution of EU funding instruments (mentioned in 29 replies). Furthermore, a lack of continuity in EU-funded projects was highlighted as a barrier to the EU budget's ability to achieve its objectives.

In their open contributions and position papers, stakeholders indicated the importance of maintaining cohesion policy as a dedicated and autonomous pillar of the EU budget post-2027. At the same time, they clearly emphasised the need for simplification and improved access to EU funding and pointed to reducing fragmentation of EU funding and rules through harmonisation, alignment and streamlining of instruments and timelines; ensuring coherence between EU priorities and national/regional/local reforms; or targeting the support where it can generate the greatest impact. At the same time, proposals for centralising access to EU funds received a more mixed response. Several contributions also underlined the need for improving coordination between authorities, including coordination across governance levels and institutions, and respondents called for more inclusive and participatory policymaking that reflects the needs of all societal groups at all stages of the policy cycle and for the active involvement of regional and local authorities in designing, managing and implementing EU funding programmes.

Overall, the public consultation findings point to a broad consensus on the importance of maintaining the principles of partnership, subsidiarity and cohesion, while adapting the EU budget to be more accessible, responsive, impactful and better aligned with long-term transformation needs. Views among citizens and public authorities are similar, reinforcing the challenges perceived and the policy priorities.

3. **Main takeaways from the Citizens' Panel on the next EU budget**

On 16-18 May 2025, the third and final session of the **European Citizens' Panel on the new EU long-term budget** took place in Brussels. A group of 150 randomly selected citizens from all 27 EU Member States were given the opportunity to share their ideas for a sustainable and flexible long-term EU budget. This diverse panel discussed which priorities and actions bring the most added value to Europeans through the EU Budget. The panellists agreed on a final set of **22 recommendations to the European Commission**, as well as **11 guiding recommendations that function as key principles** to guide the European Commissioner for Budget, Anti-Fraud and Public Administration. Commissioner Serafin was given these recommendations during the last day of the panel.

The 11 guiding recommendations ask the EU to consider a strong future-ready EU budget which:

- **Strengthens our shared values** by promoting and reinforcing common principles and beliefs to unite the European community and safeguard the EU project.
- **Ensures solidarity between Member States** by fostering mutual support and cooperation to address common challenges and promote collective well-being.
- **Reduces inequalities** by addressing disparities within and between Member States, with special attention to more vulnerable groups.
- **Considers the environmental and climate impact** by prioritising sustainability and the protection of the ecosystems and their biodiversity, while taking into account the different needs of European regions.
- **Strengthens competitiveness** of the economic sector across Member States by allowing each Member State to allocate funds based on their specific needs.
- **Enables swift and flexible action** by ensuring the EU can respond quickly to urgent challenges, unforeseen needs, as well as to opportunities, while maintaining long-term focus.
- **Ensures transparency and accountability** at all levels by providing clear information on investment criteria, spending, and impact, to prevent corruption and misuse of EU funds.
- **Promotes decentralisation** with strong and transparent oversight by tailoring policies to regional needs while ensuring robust EU-level control to avoid abuse.
- **Improves communication and citizen engagement** by making EU actions more visible and understandable, actively involving citizens in decisions and reflecting their needs in the budget. The EU should also promote its projects and wins more openly.

- **Ensuring that the needs and interests of the European Union, its Member States and its citizens are met**. Internal stability and prosperity should be considered while also extending support to non-EU countries.

- **Guarantees feasibility, efficiency, and maximised impact** by ensuring projects are realistic, cost-effective, and benefit as many citizens and Member States as possible, with clearly defined goals and measurable outcomes.

The 22 final recommendations encourage the new European budget to focus on:

- Ensuring environmental protection and economic success at the same time.

- Protecting nature and natural resources through environmental education and other measures.

- Reducing regional disparities through the expansion of essential infrastructures and services.

- A future in the countryside: Combating rural exodus through education, jobs, and housing.

- Meaningful and sustainable inclusion of migrants and refugees for a stronger Europe.

- Budget support for equal access to healthcare, medicine production, and cross-border care in the EU.

- Supporting mental health for all age groups through integrated EU budget actions.

- A strong and secure EU against digital threats.

- A more independent EU in the field of defence.

- Ensuring that all young people have the opportunity to enter the labour market under fair and decent working conditions.

- Supporting the development of small and medium-sized enterprises (SMEs) and start-ups.

- Strengthening the food system by making large food companies more sustainable and support small producers.

- Empowering people in using digital technologies, including AI.

- Sovereignty of the EU in digital technologies.

- Promoting inclusive, high-quality education for all through targeted EU support.

- Fostering a common European identity through education and awareness.

- The simplification, harmonization and digitalisation of administrative procedures across Member States.
- Building stronger connections between citizens and EU for a better tomorrow.
- Developing renewable energy to secure our energy sovereignty.
- Strategic strength: Europe's industrial response to global disruption.
- Strengthening EU diplomatic alignment via shared values
- A holistic diplomatic EU plan

4. Other stakeholder consultation activities

A number of other consultation activities were carried out to gather stakeholder views and inputs on specific topics and funds covered in this Impact Assessment.

For instance, following the publication of the 8th Cohesion Report and its announcement at the Cohesion Forum in March 2022, the Commission set up a group of high-level specialists on the future of cohesion policy, composed of representatives of academia, national, regional and local politicians, socio-economic partners and representatives of civil society. The group published the report ‘Forging a sustainable future together: Cohesion for a competitive and inclusive Europe’ ([2]). According to the report, Cohesion Policy must move from being a 'support' mechanism to a central driver of growth, jobs, equality, and opportunities, particularly in vulnerable areas, as well as human capital development and better institutions. Doing this involves balancing the focus on results and performance with the need for flexibility, adaptability and the capacity to respond to current challenges without compromising its foundational goals. To enhance effectiveness, the report recognises the need to foster synergies between Cohesion Policy, other EU policies, and Member State initiatives.

In addition, through the ESF+ Committee, a drafting committee was established in February 2024 to issue an opinion on technical items regarding the future of the ESF ([3]).

Consultation activities related to future EU funding in the areas of employment, skills and social inclusion

The Commission commissioned a **preparatory study on the future EU funding in the areas of employment, skills and social inclusion**. Parts of this study were targeted stakeholder consultations. A total of 285 stakeholders were interviewed, representing 197 different organisations based in all EU Member States. Additionally, a survey was launched with 81 responses, and 4 focus groups were organised. The main policy challenges identified in the mentioned areas included unemployment of vulnerable groups (incl. youth), barriers in accessing essential services (incl. housing), and the need of upskilling and reskilling the workforce. Stakeholders identified the following areas that deserve attention as far as EU funds in the areas of employment, skills and social inclusion are concerned: administrative complexity, persistent barriers for vulnerable groups in accessing funding, a rigid programming architecture, a limited focus on results, the sustainability of interventions and limited involvement of local actors.

In their suggestions for future EU funding in the mentioned areas, stakeholders highlighted the need to strengthen capacity building for managing authorities and beneficiaries, maintain people-oriented and place-based approaches, ensure that the ESF+ is aligned with national needs, enhance synergies between ESF+ and other EU funds, increase flexibility, and strengthen the involvement of local actors in the planning and implementation of projects.

Consultation activities carried out related to the CAP post 2027

Launched in January 2024, a **strategic dialogue on the future of EU agriculture ([4])** brought together 29 major stakeholders from the European agri-food sectors, civil society, rural communities and academia to reach a common understanding and vision for the future of EU's farming and food systems. On 4 September 2024, the final report of the strategic dialogue was published presenting an assessment of challenges and opportunities and a set of recommendations. In relation to the future CAP, the Strategic Dialogue highlighted the need to continue providing socio-economic support targeted to the farmers who need it most; promoting positive environmental, social, and animal welfare outcomes for society; and invigorating enabling conditions for rural areas. Reaching the EU’s objectives in terms of agriculture and food production, rural development, climate neutrality, and biodiversity restoration requires a more strategic approach to ensure that all ambitions are matched in a balanced and efficient manner. Such principle is essential for making the transition economically profitable, promoting generational renewal, invigorating rural areas and supporting farms at a competitive disadvantage, yet essential for agricultural diversity in the EU. . These topics have been further discussed in a dedicated conference “*Shaping the future of farming and the agri-food sector*” organised by the Commission on 8 May 2025, bringing together more than one thousand participants between Member States and EU/national stakeholders.

Furthermore, in the framework of the recently established **European Board for Agriculture and Food (EBAF)[38],** bringing together organisations representing the farming community, other actors of the food supply chain, and civil society, dedicated discussions took place on 19 May 2025 and 19/20 June 2021 on how to better target direct payments and move from conditions to incentives in the CAP post-2027.

Furthermore, the Commission collected additional inputs on the future of the CAP through dedicated meetings organized in the framework of existing EU stakeholders platforms, including a fully dedicated Civil Dialogue Group on the future of the CAP on the 25 June 2025.

At the same time, two Youth dialogues chaired by the Commissioner for Agriculture and Food (december 2024 and may 2025) stressed the need to reinforce the toolbox in favour of generational renewal in agriculture and the first Implementation Dialogue on the current CAP (June 2025) highlighted the need to improve existing tools to make them more efficient and impactful.

The Commission also carried out a series of **technical workshops** between December 2023 and May 2024 bringing together Member States and EU stakeholders to discuss key strategic policy questions, taking into account ongoing and future challenges and opportunities for EU agriculture and rural areas and possible CAP policy response. The topics covered were resilience, food security, sustainability, CAP governance and performance, and solidarity and rural areas and conclusions from the workshops included calls for stability, flexibility and simplification (in particular for farmers) and support for more integrated policy responses in view of the breadth of rural challenges.

ANNEX 3: WHO IS AFFECTED AND HOW?

1. PRACTICAL IMPLICATIONS OF THE INITIATIVE

The different policy options for this initiative propose to simplify the current landscape of EU funds for nationally pre-allocated envelopes through a plan for each Member State, combining a strategic agenda of reforms and investments targeted to Member States' needs while supporting EU priorities. With the different policy options for this initiative, there would be one framework setting out the rules governing the plans' funding for pre-allocated envelopes.

National and regional/local administrations will be directly affected by the different policy options for this initiative as they will have to implement the new framework and adjust from the status quo. Recipients of EU funds (including businesses) would also need to adjust to the new framework. Overall, the different policy options for this initiative provide a major simplification of EU funds (one common set of rules) which is expected, over the short to medium term, to reduce costs for national/regional/local administrations as well as businesses (see Annex 5 on Competitiveness and Annex 6 on SMEs).

Bringing together different EU funds also provides the opportunity to increase synergies and flexibility in the use of EU resources, which is conducive to a better allocation of resources and a more efficient EU budget, with macroeconomic and society-wide benefits in the long term. The focus on EU priorities, while taking into account national and regional needs, is also expected to contribute to a more efficient use of EU resources.

While one-off adjustment costs are expected for national and regional authorities and beneficiaries (including businesses) to adjust to the new set-up, recurrent compliance and administrative costs are expected to be reduced compared to the status quo thanks to the simplification efforts.

2. SUMMARY OF COSTS AND BENEFITS

I. Overview of Benefits (total for all provisions)		
Description	***Amount***	***Comments***
Direct benefits		
Efficiency gains of EU budgetary resources	**High**	With a plan per Member State, the proposed options enable to better **support EU priorities** through a strategic agenda of investments and reforms linking EU, national and regional levels, to **exploit synergies** across programmes currently spread and to provide **flexibility** to (re)allocate funds as needs emerge - which are all in turn expected to provide efficiency gains for the EU budget.
Reduction of compliance costs to access EU funds	**High**	**One common set of rules** for pre-allocated envelopes (instead of separate rules per programme) is expected to reduce compliance costs for national and regional administrations.
Reduction of administrative costs to access EU funds	**High**	**One common set of rules** for pre-allocated envelopes (for example on reporting, audit, communication) is expected to reduce administrative costs for national and regional administrations (cf. Annex 10).
Indirect benefits		
Reduction of compliance costs to access EU funds	**High**	One common set of rules for pre-allocated envelopes is expected to translate into a **simplified framework** for beneficiaries (including businesses) to access EU funds
Reduction of administrative costs to access EU funds	**Moderate**	Instead of having investment opportunities scattered across various programmes, the plans would provide businesses with a **comprehensive overview of investment opportunities per Member States**.
Improved framework conditions	**High**	EU support for the implementation of **structural reforms** tailored to Member States' and regional needs is expected to benefit citizens and businesses.

All the options proposed would trigger the benefits presented in the table above. However, the magnitude of these benefits will depend on the extent of the plans' scope, as discussed in the impact assessment.

II. Overview of costs							
		Citizens/Consumers		**Businesses**		**Administrations**	
		One-off	**Recurrent**	**One-off**	**Recurrent**	**One-off**	**Recurrent**
For the	Direct adjustment	N/A	N/A	N/A	N/A	Adjustment	N/A

most pertinent policy options	costs					cost to adapt to new set-up	
	Direct administrative costs	N/A	N/A	N/A	N/A	N/A	See table below and Annex 10
	Direct regulatory fees and charges	N/A	N/A	N/A	N/A	N/A	N/A
	Direct enforcement costs	N/A	N/A	N/A	N/A	N/A	Reduction compared to status-quo
	Indirect costs	N/A	N/A	Adjustment costs to adjust to new set-up	N/A	N/A	N/A

The estimated total administrative costs for the most pertinent policy options are presented below (cf. Annex 10). It shows that both option 1 and option 2 would massively reduce administrative costs for Member States compared to the status quo. Options 1 and 2a would bring the biggest reduction, followed by Option 2b.

Option	Total administrative costs per million EUR spent
Status quo	37,968
Option 1	18,984
Option 2a	22,781
Option 2b	26,578

III. Application of the ‘one in, one out’ approach			
[M€]	**One-off** (annualised total net present value over the relevant period)	**Recurrent** (nominal values per year)	**Total**
Businesses			
New administrative burdens (INs)	N/A	Businesses will have to comply with the framework to implement the plans.	
Removed administrative burdens (OUTs)	N/A	Businesses will no longer have to comply with the various/diverse frameworks set-up to implement the current separate programmes	
Net administrative burdens	Adjustment cost	Reduced	***Reduced***
Adjustment costs	Businesses will have to adjust to the new rules to implement the plans.		
Citizens			

New administrative burdens (INs)	N/A	N/A	N/A
Removed administrative burdens (OUTs)	N/A	N/A	N/A
Net administrative burdens*	N/A	N/A	N/A
Adjustment costs**	N/A	N/A	
Total administrative burdens***	***Reduced***	***Reduced***	

All the options on the scope are relevant for the “one in, one out approach”. Compared to the baseline (where EU funds with nationally pre-allocated envelopes are governed by separate fund-specific regulations and implemented through different programmes), the proposed options would replace the current multiple existing regulations with one framework. The extent of the “one in, one out” will depend on the plans’ scope.

3. RELEVANT SUSTAINABLE DEVELOPMENT GOALS

The proposal is expected to contribute to all Sustainable Development Goals (SDGs), as it supports a broad spectrum of investments and reforms across the EU. These areas are already partially covered by existing funds, each contributing to various SDGs. The final list of SDGs to which the different policy options for this initiative will contribute will ultimately depend on the scope of the plans.

The proposed approach integrates performance-oriented delivery within a shared management framework, built on the partnership principle. This enhances coherence between EU, national, and regional priorities, ensures better coordination of funding sources, and reinforces Member States’ ownership.

Crucially, the impact on SDGs is expected to be significantly strengthened due to several design features:

- **A stronger link with SDG-relevant policy priorities**, as the plan is embedded in a unified reference framework and guided by a common steering mechanism that aligns investments and reforms with strategic EU objectives;
- **Increased support for reforms**, which are essential for addressing root causes of underperformance and for unlocking lasting impact across multiple SDGs;
- **Simplified implementation rules**, which enhance accessibility for a broader range of beneficiaries, including smaller stakeholders, thereby expanding the reach and inclusiveness of EU funding.

Together, these elements will not only facilitate monitoring of progress but—more importantly—help accelerate the *achievement* of the SDGs. In particular, reforms under the new model will serve as a critical lever to deliver tangible results and address persistent implementation gaps.

The examples below illustrate how funding from pre-allocated envelopes can contribute to all SDGs within this more integrated, accessible, and performance-driven framework.

IV. Overview of relevant Sustainable Development Goals		
Relevant SDG	**Expected progress towards the Goal**	**Comments (examples)**
SDG 1 - End poverty in all its forms everywhere	To be determined when milestones/targets and indicators are set	e.g. reforms and measures to combat poverty and social exclusion and address material deprivation.
SDG 2 - End hunger, achieve food security and improved nutrition and promote sustainable agriculture	To be determined when milestones/targets and indicators are set	e.g. reforms to support generational renewal in the agricultural sector (e.g. to ease access to land/capital; retirement schemes; fiscal incentives).
SDG 3 - Ensure healthy lives and promote well-being for all at all ages	To be determined when milestones/targets and indicators are set	Future national and regional partnership plans could for example include reforms that determines the primary care network on the basis of availability of doctors and up-to-date capacity needs.
SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	To be determined when milestones/targets and indicators are set	e.g. investments in skills
SDG 5 - Achieve gender equality and empower all women and girls	To be determined when milestones/targets and indicators are set	As the rest of the EU budget, the plans are expected to contribute to gender mainstreaming (cf. dedicated IA on performance)
SDG 6 - Ensure availability and sustainable management of water and sanitation for all	To be determined when milestones/targets and indicators are set	e.g. investments into water management systems to incentivise sustainable water use in agriculture.
SDG 7 - Ensure access to affordable, reliable, sustainable and modern energy for all	To be determined when milestones/targets and indicators are set	E.g. investments into energy renovation in housing targeted to lower-income households
SDG 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	To be determined when milestones/targets and indicators are set	e.g. investment schemes to support the digital transformation of SMEs by increasing the digital skills of their employees.
SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	To be determined when milestones/targets and indicators are set	e.g. schemes to support companies in in research and development investments, incentivising private sector innovation.
SDG 10 - Reduce inequalities within and among countries	To be determined when milestones/targets and indicators are set	e.g. investments to ensure adequate access to transport services for disadvantaged and vulnerable persons.
SDG 11 - Make cities and human settlements inclusive, safe, resilient and sustainable	To be determined when milestones/targets and indicators are set	e.g. measures establishing car free spaces and promoting the regeneration of public spaces of village and town cores.
SDG 12 - Ensure sustainable consumption and production patterns	To be determined when milestones/targets and indicators are set	e.g. measures supporting the introduction of new, cleaner production technologies for energy-intensive industries.
SDG 13 - Take urgent action	To be determined when milestones/targets and	As the rest of the EU budget, the plans are

to combat climate change and its impacts	indicators are set	expected to contribute to climate mainstreaming (cf. dedicated impact assessment on performance)
SDG 14 - Conserve and sustainably use the oceans, seas and marine resources for sustainable development	To be determined when milestones/targets and indicators are set	e.g. measures aimed at ecological restoration and supporting coastal areas
SDG 15 - Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	To be determined when milestones/targets and indicators are set	e.g. measures aimed at nature restoration, for instance in the agricultural sector
SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	To be determined when milestones/targets and indicators are set	e.g. reforms to improve the legal response to corruption.
SDG 17 - Strengthen the means of implementation and revitalize the global partnership for sustainable development.	To be determined when milestones/targets and indicators are set	e.g. tax reforms to improve domestic revenue collection.

ANNEX 4: COMPETITIVENESS CHECK

1. OVERVIEW OF IMPACTS ON COMPETITIVENESS

Dimensions of Competitiveness	**Impact of the initiative**	**References to sub-sections of the main report or annexes**
Cost and price competitiveness	+	Section 7
International competitiveness	+	Section 7
Capacity to innovate	++	Section 5.3 and section 7
SME competitiveness	+	Section 7 and Annex 5 (SME check)

2. SYNTHETIC ASSESSMENT

All options on the scope are fully in line with the Commission's agenda to support EU competitiveness, most notably the *Competitiveness Compass for the EU*[39] adopted in January 2025, which calls for action on "horizontal enablers" including simplifying the regulatory environment, reducing burden favouring speed and flexibility, as well as a refocused EU budget and a better coordination of policies at EU and national level.

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[39] A Competititive Compass for the EU

By relying on a steering mechanism to identify the reforms and investments to be included in each plan, this initiative helps steer the EU budget towards supporting EU competitiveness, focusing on commonly agreed priorities, while being tailored to Member States' specific needs.

Cost and price competitiveness: The options on the scope are not expected to have a direct impact on the cost of inputs, capital or labour, nor on the price of outputs in the EU. The options are, however, expected to reduce administrative and compliance costs to access EU funds for both national/regional/local authorities and businesses by having one framework setting out the rules governing the plans' funding for pre-allocated envelopes (instead of separate rules per programme). The options are also expected to have a positive impact on cost/price competitiveness as it supports a more efficient use of EU budgetary resources.

International competitiveness: The options on the scope are not expected to have a direct impact on EU market shares. However, they are expected have a positive impact on EU firms with respect to non-EU competitors, through improved framework conditions. The plans are expected to have a long-term impact on EU competitiveness by supporting the implementation of structural reforms in Member States in diverse areas, from reforms improving skills to labour market or tax reforms, or reforms removing long-standing regulatory barriers. By supporting investments in key/strategic sectors (broadband, digital technologies, R&D, etc.) and favouring synergies, not only between investments and reforms, but also between investments across different sectors, the options on the scope are also expected to improve the competitive position of EU firms compared to non-EU competitors in the long run.

Capacity to innovate: The options on the scope are expected to have a direct impact on the EU's capacity to innovate, thanks to the direct support provided for both investments and reforms in various sectors conducive to innovation, such as in R&D, in digital technologies, in decarbonisation, etc. The plans would also favour synergies between reforms and investments in all areas and across sectors, which is expected to support innovation/to have a positive impact on the capacity to innovate.

SME competitiveness: All options on the scope of the plans are expected to have a positive impact on SMEs, driven by simplification. Indeed, instead of having investment opportunities scattered across various programmes, the plans would provide a comprehensive overview of investment opportunities per Member States. At the same time, the plans would also propose one common set of rules (for example on audit, eligibility, collection of data or reporting rules) to access EU funds under nationally allocated envelopes. This simplification is expected to indirectly benefit SMEs, which often have limited resources compared to larger companies to navigate complex, heterogeneous programme-specific rules. However, the extent of the simplification for SMEs will also depend on the rules that national/regional/local authorities will set. In the short-term, SMEs may nonetheless face transition costs to adjust to the new rules (e.g. performance-based delivery model), but their extent is expected to be limited.

SMEs will also benefit from improved framework conditions, as the plans will include support for reforms in diverse areas that matter for SMEs, from business environment to labour market reforms. The recent experience of the RRF (see scoreboard fiche on SME support) has shown for example that SMEs have benefited from a wide spectrum of reforms, from reforms improving the business environment and reducing red tape to reforms supporting the digitalisation of public administration. This goes beyond the measures targeting SMEs directly (for example with investments supporting the digitalisation of SMEs under the RRF) or the support provided for SMEs under cohesion policy.

3. COMPETITIVE POSITION OF THE MOST AFFECTED SECTORS

The options on the scope do not directly affect the competitive position of a specific sector (nor do the other options proposed). However, the plans would bring together various sectors that are all relevant for EU competitiveness. This would enable to better exploit synergies between reforms and investments within and across sectors, which is expected to have a positive impact on their competitiveness. The plans would also provide flexibility to (re)allocate funds as needs emerge, which may be instrumental to support the competitiveness of a specific sector in case of a shock.

ANNEX 5: SME CHECK [FOR SME RELEVANT AND HIGHLY RELEVANT INITIATIVES]

OVERVIEW OF IMPACTS ON SMES

Relevance for SMEs
While this initiative does not feature in the list selected by the SME Envoy network (SME filter) of relevant initiatives for SMEs, it can be considered to be of relevance to SMEs for the reasons outlined below.

(1) IDENTIFICATION OF AFFECTED BUSINESSES AND ASSESSMENT OF RELEVANCE
Are SMEs directly affected? *(Yes/No)* **In which sectors?**
No
Estimated number of directly affected SMEs
N/A
Estimated number of employees in directly affected SMEs
N/A
Are SMEs indirectly affected? *(Yes/No)* **In which sectors? What is the estimated number of indirectly affected SMEs and employees?**
Yes, in all sectors potentially. By supporting reforms and investments tailored to Member States' needs, all EU SMEs and their employees could potentially benefit from enhanced simplification and improved framework conditions.

(2) CONSULTATION OF SME STAKEHOLDERS
How has the input from the SME community been taken into consideration?
SMEs were consulted in the context of the public consultation, carried out between 12 February and 7 May 2025 (see annex 2). SMEs emphasized the need for simplified access to EU funding, clearer guidance on the application process, and greater inclusion in the co-design of EU programs. In particular, respondents stressed that SMEs should be recognised not only as beneficiaries but also as strategic partners in delivering EU objectives, particularly in areas such as sustainability, innovation, and regional development. They highlighted the importance of implementation practicality, stressing that administrative burden should be reduced, and suggesting that the EU should prioritize the development of user-friendly tools and platforms that facilitate their participation. The overall message delivered is that more SME-sensitive approaches are

needed to ensure effective, inclusive, and territorially balanced access to EU funding. The design of the plans takes into account these elements, notably the need to provide simplify access to EU funding.
Are SMEs' views different from those of large businesses? *(Yes/No)*
N/A

(3) ASSESSMENT OF IMPACTS ON SMEs[40]
What are the estimated direct costs for SMEs of the preferred policy option? *(Fill in only if step 1 flags direct impacts)*
N/A
What are the estimated direct benefits/cost savings for SMEs of the preferred policy option[41]**?**
N/A
What are the indirect impacts of this initiative on SMEs? *(Fill in only if step 1 flags indirect impacts)*
The plans would provide better visibility to SMEs on the various investment opportunities per Member State. Furthermore, the plans would replace the current system made up of different set of rules by one framework setting out the rules governing the plans' funding for pre-allocated envelopes (e.g. the audit, eligibility and reporting rules). In this regard, all options on the scope are expected to indirectly benefit SMEs through simplification. At the same time, the extent of simplification for SMEs will also depend on the rules that Member States will put in place at national/regional/local level to access EU funds.

(4) MINIMISING NEGATIVE IMPACTS ON SMEs
Are SMEs disproportionately affected compared to large companies? (*Yes/No)* **If yes, are there any specific subgroups of SMEs more exposed than others?**
No
Have mitigating measures been included in the preferred option/proposal? (Yes/No)
The analysis of the options did not identify any specific negative impacts on SMEs.

CONTRIBUTION TO THE 35% BURDEN REDUCTION TARGET FOR SMEs

[40] The costs and benefits data in this annex are consistent with the data in annex 3. The preferred option includes the mitigating measures listed in section 4.
[41] The direct benefits for SMEs can also be cost savings.

Are there any administrative cost savings relevant for the 35% burden reduction target for SMEs?
N/A

ADDITIONAL INFORMATION

(See Competitiveness check - section on SME competitiveness)

All options on the scope of the plans are expected to have a positive impact on SMEs, driven by simplification. Indeed, instead of having investment opportunities scattered across various programmes, the plans would provide a comprehensive overview of investment opportunities per Member States. At the same time, the plans would also propose one common set of rules (for example on audit, eligibility, collection of data or reporting rules) to access EU funds under nationally allocated envelopes. This simplification is expected to indirectly benefit SMEs, which often have limited resources compared to larger companies to navigate complex, heterogeneous programme-specific rules. However, the extent of the simplification for SMEs will also depend on the rules that national/regional/local authorities will set. In the short-term, SMEs may nonetheless face transition costs to adjust to the new rules (e.g. performance-based delivery model), but their extent is expected to be limited.

SMEs will also benefit from improved framework conditions, as the plans will include support for reforms in diverse areas that matter for SMEs, from business environment to labour market reforms. The recent experience of the RRF (see scoreboard fiche on SME support) has shown for example that SMEs have benefited from a wide spectrum of reforms, from reforms improving the business environment and reducing red tape to reforms supporting the digitalisation of public administration. This goes beyond the measures targeting SMEs directly (for example with investments supporting the digitalisation of SMEs under the RRF) or the support provided for SMEs under cohesion policy.

ANNEX 6: EU FUNDS WITH NATIONALLY PRE-ALLOCATED ENVELOPES

- **Cohesion Policy Funds**

Cohesion policy aims to reduce regional disparities and promote economic, territorial and social cohesion as well as convergence among Member States and regions (Treaty objective). The budget allocated to cohesion policy is close to a third of the current MFF budget. Around two thirds of the cohesion policy budget is dedicated to less developed regions. It also provides targeted support for areas that are geographically disadvantaged (remote, islands, mountainous or sparsely populated areas) with dedicated financing.

Over the past decades, Cohesion Policy has evolved to meet the changing socio-economic, environmental, and the EU's policy priorities, such as the transition towards a smart, green, and digital Europe. The policy is also aligned with the European Semester. In the 2021 – 2027 period, Cohesion Policy has an increased focus on achieving a greener EU and ensuring a just transition, addressing contemporary challenges affecting differently all regions, and supporting the EU's broader goals of sustainable development and inclusivity.

Cohesion policy is implemented under 'shared management' between the Member States and the Commission through the different funds described below, with funding mainly disbursed based on incurred costs:

- The European Regional Development Fund (ERDF) - to invest in the economic and social development of all EU regions and cities. It also provides funding for the European Urban Initiative and Interregional Innovation Investments (directly managed by the Commission).

- The Cohesion Fund (CF) – to invest in environment and transport infrastructure in the less prosperous EU countries. It supports EU convergence by design, as the instrument focuses on Member States with a GNI per capita below 90% of the EU average. A share of the CF budget is transferred and implemented through the transport strand of the Connecting Europe Facility.

- The European Social Fund+ (ESF+)– to support jobs, education, skills and create a fair and socially inclusive society in EU countries in line with the European Pillar of Social Rights. ESF+ also promotes the horizontal principles of gender equality, respect for fundamental rights, equal opportunities, and non-discrimination. The biggest part of the ESF is implemented under shared management but there is a small part reserved for direct and indirect management which is not pre-allocated (the Employment and Social Innovation strand (EaSI) and support to transnational cooperation)[42].

42 The EaSI strand does not have nationally pre-allocated envelopes.

- The Just Transition Fund (JTF)- to mitigate the socio-economic impact in the territories most affected by the transition towards climate-neutrality. The fund invests in SMEs, clean energy projects, smart and sustainable local mobility, research and innovation and social infrastructure with a view to supporting economic diversification, reskilling of workers, land and ecosystem restoration, and promoting environmental sustainability.

- Interreg – funded by the ERDF but with its own dedicated budget and Regulation, Interreg aims to stimulate cooperation between regions in and out of the European Union. Interreg is implemented under shared management, through 86 dedicated programmes.

➢ **The Recovery and Resilience Facility (RRF)**

The RRF is the centrepiece of NextGenerationEU, the EU's plan to emerge stronger and more resilient from the COVID-19 crisis. The legal basis of the RRF is partly the same as for Cohesion Policy (Article 175 of the TFEU). It was established in February 2021 as a temporary instrument set to last until end 2026 to help Member States recover from the crisis and make their economies and societies more resilient and better prepared for the green and digital transitions. It is implemented through "direct management" by the Commission. Furthermore, in the context of the REPowerEU plan presented by the Commission in May 2022 to respond to the socio-economic hardships and global energy market disruption caused by Russia's invasion of Ukraine, Member States could benefit from additional resources to introduce REPowerEU chapters in their RRPs. The aim of these chapters is to boost reforms and investments that diversify the EU's energy supplies, accelerate the green transition and support vulnerable households.

The RRF is the EU's first major performance-based funding programme, disbursing funds to Member States against progress made towards both reforms and investments put forward in their national recovery and resilience plans (RRPs). Rather than considering the costs incurred for the implementation of projects, funds are unlocked upon the achievement of milestones and targets, which represent concrete steps in the implementation of reforms or investments by Member States, with a results-based or, also-called, performance-based approach. One of the RRF's key innovative features is its use of financial incentives to promote reforms, including key reforms identified in the context of the European Semester. These reforms draw on priorities highlighted in the European Semester's country specific recommendations endorsed by the European Council. Overall, reforms and investments must be in line with the EU priorities identified in the RRF Regulation and in the European Semester for economic and employment policy coordination through addressing all or a significant subset of the Semester's country-specific recommendations (CSRs).

➢ **Common Agricultural Policy (CAP):**

The Common Agricultural Policy (CAP), mostly implemented in shared management, ensures long term food security in the EU by safeguarding a fair standard of living for farmers – as enshrined in the Treaties – through various instruments. In this context, the CAP is a key policy for supporting the economic, environmental and social sustainability of rural areas. Almost a third of the current EU budget is allocated to the CAP and most of this budget is dedicated to income support, both within the first and second pillar funds, for which farmers are the direct beneficiaries. The CAP has evolved over the years to address geo-political, socio-economic, environmental and climate challenges and meet citizens' expectations. The latest CAP reform, which came into effect in 2023, introduced a new, more performance-based delivery model based on strategic programming, which provided Member States with increased flexibility and responsibility in addressing national/regional/local specificities and needs within a set of common EU rules and objectives. The new delivery mechanism covers under the single umbrella of the CAP Strategic Plans the funding for direct income support, rural development and support for certain sectors.

The CAP is financed through two funds (also referred to as the first and second pillar of the CAP):

- The European Agricultural Guarantee Fund (EAGF), which provides, inter alia, direct payments to farmers as well as measures to support and stabilise agricultural markets, including in crisis/exceptional situations through the agricultural reserve.

- The European Agricultural Fund for Rural Development (EAFRD), which provides support to farmers' incomes through a series of interventions (such as remuneration for environmental and climate services, support for on-farm investments, risk management tools, young farmers and farmers operating in areas with natural constraints, knowledge exchange) and supports investments in rural areas as well as cooperative approaches (LEADER[43]).

➢ **European Maritime, Fisheries and Aquaculture Fund (EMFAF):**

It supports the EU common fisheries policy (CFP), and the EU agenda for international ocean governance. It provides support for ensuring sustainable fisheries, aquaculture, processing and the wider blue economy. This includes for example, developing innovative projects for more selective fishing and sustainable aquaculture, delivering the energy transition of the sector, and providing support for closure periods for the protection of biodiversity, and ensuring that coastal and rural communities dependent on fisheries can go from strength to strength. Support from the fund also ensures that appropriate levels of controls and data collection are in place to inform policy decisions, notably to the deliver on the protection of marine biological resources – an exclusive competence of the EU The majority of the programme is implemented under shared management, through national programmes, for which the CPR 2021-2027 is applicable. The Commission also directly manages a part of the programme, by supporting, amongst others, interventions relating to the blue economy, scientific advice, fisheries control and enforcement, market intelligence and provides financing to the activities of regional fisheries management organisations.

➢ **Home Affairs Funds:**

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43 LEADER involves local actors in rural areas in the development of their own regions by forming Local Actions Groups (LAGs) and designing and implementing strategies.

There are three EU funds in the field of home affairs:

- the Asylum, Migration and Integration Fund (AMIF) – contribute to the efficient management of migration flows and to the implementation, strengthening and development of the common policy on asylum and the common immigration policy.

- the Border Management and Visa Instrument (BMVI) – to ensure a strong and effective European integrated border management at the Union's external borders, thereby contributing to ensuring a high level of internal security within the Union while safeguarding the free movement of persons within it;

- the Internal Security Fund (ISF) – to contribute to ensuring a high level of security in the EU, in particular by preventing and combating terrorism and radicalisation, serious and organised crime, corruption and cybercrime, by assisting and protecting victims of crime, as well as by preparing for, protecting against and effectively managing security-related incidents, risks and crises.

The three Home Affairs Funds combine all management modes. More than half of the total funding for all three Funds is implemented under shared management, through national programmes (one per fund for each Member State) under the rules of the CPR. Under each Fund an amount is to be allocated following a mid-term review. That amount corresponds to approx. 10 % of the total budget and will be distributed to Member States based on the same allocation criteria as the initial allocations but on the basis of updated statistical data (covering years 2021-2023). Those mid-term allocations for 2025-2025 will be allocated only to the Member States that by end 2024 fulfilled specific conditions and will go to their national programmes.

The remaining part of the financial envelope of each Home Affairs Fund is not pre-allocated and is centrally managed by the Commission through multiannual work programmes under the form of a Thematic Facility (in total, there are three – one for each Fund). Funding can be implemented under all management modes – direct, shared, indirect.

- **LIFE Programme**

The LIFE programme is the Commission's dedicated funding for environment, climate action and the transition to clean energy.

Approximately one-third of the LIFE budget, is pre-allocated to Member States on an indicative basis for the implementation of 'strategic nature projects'[44] and 'strategic integrated projects' 45, as outlined in the LIFE Multiannual Work Programme[46]. This

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44 'Strategic nature projects' are initiatives that help achieve the EU's nature and biodiversity goals by implementing coordinated programmes of actions in Member States, integrating these objectives into other policies and funding.

45 'Strategic integrated projects' are large-scale projects that implement environmental or climate strategies, required by EU law, across regions or countries, involving stakeholders and combining multiple funding sources.

pre-allocation reinforces the programme's commitment to implementing environmental law in the Member States. Beyond the indicatively pre-allocated envelopes for strategic nature and integrated projects, other LIFE projects address EU priorities by promoting innovation and stakeholder involvement.

- **Connecting Europe Facility**

The Connecting Europe Facility (CEF) is a key EU funding instrument to promote growth, jobs and competitiveness through targeted infrastructure investment at European level. It is a centrally managed programme that supports the development of high performing, sustainable and efficiently interconnected trans-European networks in the fields of transport, energy and digital services. For transport, an amount has been transferred from the Cohesion Fund to the CEF. During the first three years of implementation, the selection of projects supported from that transfer had to respect the national allocations under the Cohesion Fund with regard to 70% of the resources transferred; the remaining amount has been made available on a competitive basis amongst cohesion Member States.

- **Food safety strand of the Single Market Programme:**

The food safety strand of the Single Market Programme covers food safety, animal and plant health, antimicrobial resistance, reduction of food waste, official controls, food fraud, animal welfare and sustainability. Funding is provided via direct and indirect management, mainly through grants and procurement, but also via contribution agreements, administrative arrangements and service level agreements. While it does not have any funding pre-allocated nationally, the main beneficiaries are Member States' competent authorities. Furthermore, there are strong synergies in terms of scope with the Common Agricultural Policy.

Instruments funded by revenues from the auctioning of emission allowances under the EU Emissions Trading System (EU ETS):

- The Modernisation Fund is an off-budget instrument for Member States to spend earmarked national ETS revenues for the modernisation of their energy sector from 2021 to 2030. A small percentage of ETS1 allowances are auctioned to support 13 lower-income Member States in the energy transition. The Modernisation Fund operates under the responsibility of the beneficiary Member States, who work in close cooperation with the European Investment Bank (EIB) and the Commission. The disbursement of funds is based on an ad hoc procedure, including EIB assessment and Commission approval (and State aid clearance).

- The forthcoming Social Climate Fund (SCF) will provide, as of 2026 until 2032, Member States with dedicated funding so that the most affected vulnerable groups, such as households in energy or transport poverty, are directly supported and not left behind during the green

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46 LIFE Multiannual Work Programme 2021-2024

transition. The SCF, will be funded from the revenues sourcing from the auctioning of ETS2 allowances, and will be directly managed by the Commission, and funding will be disbursed to Member States on a performance basis. The SCF Regulation foresees the integration of the fund in the next multiannual financial framework in the event revenue generated from the auctioning the ETS2 allowances is established as an own resource.

ANNEX 7: FURTHER ANALYSIS SUPPORTING THE IDENTIFICATION OF PROBLEM DRIVERS

Problem driver 1: Some programmes overlap or have a similar scope

Table X: Objectives covered by the different EU instruments with nationally pre-allocated envelopes.

Objectives*/ funds	ERDF	CF	ESF+	JTF	CAP	EMFAF	AMIF	BMVI	ISF	RRF	Modern-isation fund	SCF	CEF	LIFE
Economic, social and territorial cohesion	*	*	*	*		*				*				
Employment, and social affairs	*		*	*		*				*	*	*		
Education and skills	*		*	*						*				
Climate action	*	*	*	*	*	*				*	*	*	*	*
Agriculture, food and rural development	*	*	*		*	*				*		*		
Research and innovation	*	*		*	*	*				*				
Health	*		*	*						*			*	
Digital connectivity infrastructures	*	*		*						*			*	
Sustainable energy infrastructures	*	*		*						*	*	*	*	*
Transport infrastructures	*	*		*						*		*	*	
Environment	*	*			*	*				*			*	*
Tourism and local development	*					*				*				

Migration			*				*							
Border management	*							*						
Security	*								*					

Problem driver 2: The programming of EU funds with nationally pre-allocated envelopes is too fragmented

Looking only at those EU funds jointly managed by the Commission and Member States, the number of programmes amounts to 511 programmes of which 232 national programmes, 194 regional programmes and 85 Interreg ones.

MS	CPR funds															Common Agricultural Policy
	Cohesion Policy											Fisheries	HOME Affairs			
	ERDF		CF		ESF		JTF		Total* ERDF-CF-ESF+-JTF			EMFAF	BMVI	AMIF	ISF	CAP Strategic Plans
	Nat	Reg	Nat	Reg	Nat	Reg	Nat	Reg	National	Regional	Interreg	Nat	Nat	Nat	Nat	Nat.(except BE)
AT	1	-	n/a	n/a	2	-	2	-	**3**	**-**	14	1	1	1	1	1
BE	-	3	n/a	n/a	1	4	-	1	**1**	**7**	10	1	1	1	1	2
BG	6	-	2	-	3	-	1	-	**9**	**-**	12	1	1	1	1	1
CY	1	-	1	-	1	-	1	-	**1**	**-**	7	1	1	1	1	1
CZ	6	-	3	-	2	-	1	-	**8**	**-**	11	1	1	1	1	1
DE	-	16	n/a	n/a	1	16	-	5	**1**	**31**	23	1	1	1	1	1
DK	1	-	n/a	n/a	1	-	1	-	**3**	**-**	9	1	1	-	-	1
EE	1	-	1	-	1	-	1	-	**1**	**-**	7	1	1	1	1	1
EL	6	13	3	-	4	13	1	-	**8**	**13**	13	1	1	1	1	1
ES	1	19	n/a	n/a	4	19	1	-	**6**	**38**	11	1	1	1	1	1
FI	1	1	n/a	n/a	1	1	1	-	**1**	**1**	8	1	1	1	1	1
FR	-	19	n/a	n/a	2	17	1	6	**3**	**19**	22	1	1	1	1	1
HR	2	-	1	-	1	-	1	-	**3**	**-**	12	1	1	1	1	1
HU	7	-	3	-	5	-	2	-	**7**	**-**	12	1	1	1	1	1
IE	-	2	n/a	n/a	1	-	1	-	**2**	**2**	8	1	-	1	1	1
IT	8	21	n/a	n/a	6	21	1	-	**10**	**38**	19	1	1	1	1	1
LT	1	-	1	-	2	-	1	-	**2**	**-**	8	1	1	1	1	1
LU	1	-	n/a	n/a	1	-	2	-	**2**	**-**	6	-	1	1	1	1
LV	1	-	1	-	2	-	1	-	**2**	**-**	8	1	1	1	1	1
MT	1	-	1	-	1	-	1	-	**2**	**-**	7	1	1	1	1	1
NL	-	4	n/a	n/a	1	-	1	-	**2**	**4**	10	1	1	1	1	1
PL	5	16	1	-	2	16	-	5	**7**	**16**	14	1	1	1	1	1
PT	2	7	1	-	2	7	-	3	**4**	**7**	10	1	1	1	1	1
RO	6	8	2	-	4	-	1	-	**8**	**8**	12	1	1	1	1	1
SE	1	8	n/a	n/a	1	-	1	-	**3**	**8**	12	1	1	1	1	1
SI	1	-	1	-	2	-	1	-	**2**	**-**	13	1	1	1	1	1
SK	1	-	1	-	1	-	1	-	**1**	**-**	11	1	1	1	1	1
Total number of programmes:									**102**	**192**	**85****	**26**	**78**			**28**

*Total number is not a direct sum of the cohesion programmes by fund because of several programmes being 'multifund' (i.e. financed by more than one cohesion policy fund); **Several MS may participate in a given Interreg programme

- **Cohesion policy**

At the start of the programming period, Member States must first prepare a partnership agreement (which also covers other policy areas; the EAFRD and EMFAF in 2014-2020 and only the latter in 2021-2027). Partnership agreements are overarching documents in which the Member States describe how coordination, demarcation and complementarities are ensured between the funds programmes the policy objectives of their funds or the preliminary financial allocation of each of the funds. These are strategic documents which set out the broad orientations but do not specify in detail what types of actions and investments are to be undertaken.

Together with the partnership agreements, Member States can start submitting programmes, setting out a strategy to achieve the objectives and identifying the types of planned activities and investments. They are free to choose the number of programmes they want to have and whether they prefer national or regional programmes (or a combination of both). Additionally, Interreg programmes pursuing the European Territorial Cooperation goal are also implemented. For the period 2021-2027, the cohesion policy funds are delivered through 379 programmes. The involvement of regional and local authorities and other stakeholders is strong throughout programming and implementation due to the long-standing partnership and multi-level governance arrangements under the policy.

- **The Common Agricultural Policy**

The move towards single programming is one of the main novelties of the new CAP, which has entrusted each Member State with the drafting of a national strategic plan, combining funding for direct payments, rural development and market measures, all of which contribute to providing income support to farmers. This allowed for strategic planning under a single plan, both for the EAGF – which before did not have a specific plan – and for the EAFRD – where the previous 115 national and many regional programmes are now combined under one single umbrella.[47]

- **EMFAF**

EMFAF funding is implemented through a single national programme at Member State level. The programme is negotiated under the partnership agreement, as set out above under cohesion policy.

- **Home Affairs Funds**

When it comes to the Home Affairs Funds for migration, border management and internal security, programming is done per Fund, with one national programme per Fund. Yet, these programmes are often managed by the same managing authorities in each Member State.

- **Recovery and Resilience Facility**

To access financial support under the Facility, Member States had to prepare RRPs setting out a national agenda of reforms and investments to be implemented gradually until 31 August 2026. The selected reforms and investments are in line with their

[47] With the exception of BE, which has two CAP Strategic Plans – one for Wallonia and one for Flanders.

priorities and needs, ensuring a targeted country-specific approach while supporting EU common policies. Once a RRP is approved by the Council upon proposal by the Commission, the plan's content becomes a legally binding act that includes the milestones and targets against the fulfilment of which payments should be made. While the RRF Regulation sets out overarching criteria that the plans need to comply with, Member States are responsible for designing their plans and deciding on the reforms and investments to put forward, creating a sense of ownership, commitment, and accountability, which facilitates implementation.

Problem driver 3: Heterogeneous programme-specific rules may lead to a suboptimal use of resources

Two of the areas where rules differ amongst programmes are co-financing rates and conditionality, which are further explained below.

Example 1: Co-financing rules

Different funds have different co-financing rates, which in specific cases are further differentiated within the funds and programmes according to the level of regional development or for specific actions. While this allows targeting interventions to achieve specific policy objectives, the current system of co-financing is complex and may lead to "subsidy-shopping" and inefficiencies in the allocation of resources in situations where Member States have the choice of implementing certain actions under several programmes. While co-financing rates are defined in the CPR for cohesion policy funds, this is not the case for other EU funds under the CPR such as the Home Affairs Funds or EMFAF, where co-financing rules are defined in sectoral legislation. Other EU funds do not require co-financing, such as direct payments under the CAP or support through the RRF. The Social Climate Fund will rely on co-financing at the level of the plan, based on the ex-ante costing of the interventions planned by Member States.

Table X: Overview of co-financing rates in EU programmes with nationally pre-allocated envelopes

EU fund with nationally pre-allocated envelopes	Co-financing (yes/no & where it is defined)	Co-financing rates (if applicable)48
ERDF	Yes – CPR	From 40 to 85%, depending on the category of regions; 80% for Interreg. Several derogations have been introduced, which allow for a co-financing rate of up to 100% (e.g. STEP)
CF	Yes – CPR	Up to 85% depending on the category of

48 In certain cases to address crises situations or pursue STEP objectives it is possible to increase the EU co-financing rates to 100% under cohesion policy.

		regions
JTF	Yes – CPR	From 50 to 85%, depending on the category of regions
ESF+	Yes – CPR and sectoral legislation, which may set higher co-financing rates	From 40 to 95%
EMFAF	Yes – CPR and sectoral legislation	Up to 70% (100% of additional costs for Outermost Regions)
EAGF	No	
EAFRD	Yes – established in the CAP Strategic Plan Regulation	From 20% up to 80-100%
AMIF	Yes – sectoral legislation	From 75% to 90-100%
BMVI	Yes – sectoral legislation	From 75% to 90-100%
ISF	Yes – sectoral legislation	From 75% to 90-100%
RRF	No	100% EU funded (and interest payments on loans are excluded from net expenditure)
LIFE	Yes – sectoral legislation	60% for strategic nature projects and strategic integrated projects
SCF	Yes – sectoral legislation	Member States shall *“contribute at least to 25% of the estimated total costs of their plans*”
CEF	Yes – sectoral legislation	CEF Transport: 30-50% in general envelope; up to 85% for projects funded from the transfer from the Cohesion Fund. CEF Energy: up to 50% of eligible costs as a general rule (and up to 75% in exceptional cases of projects scoring high in terms of security of supply, solidarity or innovation)

Example 2: Conditionality

The sound financial management of the Union budget is protected, among others, by imposing certain conditions that must be respected for the disbursement of EU funds to be used, usually referred to as the ‘conditionality’ mechanisms. The conditionalities in the current Multiannual Financial Framework can be divided between those that are applicable to all programmes of the EU budget and those additional requirements that are programme-specific. On the former, while the Conditionality Regulation applies to all programmes of the current multiannual financial framework, regardless of the management mode, it does not apply to the Modernisation Fund – an off-budget programme. This can create reputational risks for the Commission. On the latter, there are significant divergences in the application of conditionality between EU spending programmes with nationally pre-allocated envelopes, which brings additional complexity for the Commission and Member States' authorities. Furthermore, the effectiveness of the different programme-specific requirements needs to be assessed – for example, the macro-economic conditionality in cohesion has never been triggered.

At the same time, while there are no conditionality rules linked to EU values or Rule of Law in the CAP, a dedicated system of conditionality rules links CAP support to the compliance of farmers with basic standards concerning the environment, climate change, public health, plant health and animal welfare, as well as working and employment conditions for farm workers and occupational safety and health. The same applies to the EMFAF and the admissibility rules based on compliance with Common Fisheries Policy and environmental legislation.

Applicable across all programmes of the EU budget	
Legal basis	*Condition*
Conditionality regulation Not applicable to the Modernisation Fund It will apply to the Social Climate Fund	• Breaches of the rule of law principles directly affect or seriously risk affecting the sound financial management of the Union budget or of the financial interests of the Union in a sufficiently direct way.

Applicable to certain programmes of the EU budget	
Legal base	*Condition*
CPR applicable to: • Cohesion policy programmes (ERDF, ESF+, CF, JTF) • European maritime, fisheries and aquaculture fund (EMFAF) • Home Affairs	Horizontal enabling conditions (Article 15 and Annex III): • Effective monitoring mechanisms of the public procurement market • Tools and capacity for effective application of State aid rules (not applicable to the home affairs funds) • Effective application and implementation of the Charter of Fundamental Rights • Implementation and application of the UN Convention on the rights of persons with disabilities

Funds (AMIF, ISF, BMVI)	Thematic enabling conditions (Article 15 and Annex IV, **applicable to ERDF, ESF+ and CF**), such as the obligation to have a national or regional broadband plan, or a comprehensive transport planning at the appropriate level. Macro-economic conditionality – applies to ERDF (except Interreg), Cohesion Fund, JTF (not to ESF+, EMFAF or HOME funds)
CAP Regulation	Statutory management requirements (SMRs) (Article 12 and Annex III) – compliance with relevant provisions of EU legislation such as the Directive on water policy. Standard for good agricultural and environmental conditions (GAECs) (Article 12 and Annex III) such as protect wetlands and peatlands or crop rotation in arable land. Social conditionality (Article 14 and Annex IV) – compliance with relevant provisions of EU Directives, such as the Directive on minimum safety and health requirements for use of work equipment by workers.
RRF Regulation	Possibility to include 'super milestones' as a prerequisite for any payment under the RRF, ensuring that disbursements are contingent upon the fulfilment of adequate measures related to the protection of the Union's financial interests. Macro-economic conditionality applies to RRF funds

Problem driver 4: Persistent weak administrative capacity and governance at national, regional and local levels

Technical assistance

In the 2021-2027 programming period, Member States have access to a significant amount of technical assistance. Estimates suggest at least EUR 14 billion in pre-allocated technical assistance, along with an additional EUR 1.8 billion in public reform support from the RRF. This brings the total estimated technical assistance as a share of pre-allocated national envelopes to at least EUR 15 billion.

The scope of technical assistance varies across funds and is covered by different rules across EU programmes with nationally pre-allocated envelopes. Different funds have varying maximum thresholds, co-financing rates, forms of the EU contribution (flat-rate or eligible costs), and eligible scope (administrative costs only, capacity building included, beneficiary/partner assistance included). In addition to the complexity in implementing the rules, this undermines visibility of what is financed by each programme.

Furthermore, today, the bulk of technical assistance of the Member States consists mostly of administrative costs for the management of EU funds and focus on capacity-building or knowledge transfer is limited. Hence, the technical assistance is not designed to address gaps related to administrative capacity and implement the necessary measures to address them.

Technical support

The technical support provided by the Commission, directly by its services or via external consultants, faces several issues that hinder its ability to effectively strengthen the administrative capacities of Member State administrations.

In the current period, the EU budget provides technical support to public administrations through at least 14 different internal policy programmes. These programmes offer assistance either directly or through external consultants but operate with varying procedures and rules, often addressing overlapping sectors. The fragmented structure makes it difficult for administrations to fully understand and access the available support. This limits the visibility of these resources and disperses the financial means dedicated to technical support, ultimately preventing the programmes from reaching their full potential impact.

The demand-driven nature of the TSI also entails some limitations to the potential for fully aligning technical support with EU priorities. Efforts such as the introduction of flagship projects[49] and the inclusion of Country Specific Recommendations relevance as part of the assessment for selecting TSI projects aim to strengthen this alignment with key EU priorities. However, these mechanisms face limitations, as Member State requests do not always correspond to reforms identified at the EU level as critical.

Finally, it is difficult to follow-up on the results of technical support and assistance and to complete the reform efforts. In particular, the instrument providing technical support in the research domain, i.e. the Horizon Policy Support Facility's (PSF) had its ability to induce changes in national systems constrained because Member States were free to decide the extent to which they would implement the reforms identified in the context of the Facility. Similarly, as indicated in the supporting external study of TSI mid-term evaluation, changes in government and political agendas may have a negative effect on the sustainability of technical support.

Problem driver 5: Budgetary allocations are too rigid

Categories of regions & financial and thematic concentrations

In order to ensure that resources are spent to deliver on the Treaty objective for economic, social and territorial cohesion and effectively reduce interregional disparities, regions have been differentiated based on their level of development since 1988. The current three categories (less developed, transition and more developed) were introduced for 2014-2020 and have been maintained (with different thresholds).

The level of development of the regions, along with other indicators, plays an important role in the allocation methodology of cohesion policy funds – the policy

49 For example, the 2025 flagship 'Supporting the Resilience of Natural Resources'.

rationale being that the poorer need more support. Allocations are aggregated at the level of the categories of regions and need to be spent for the corresponding category of region. However, Member States are free to decide which regions of a same category receive how much of the resources.

The categories of regions' system have been made more flexible over the past programming periods, with higher level of transfers between categories enabled, removing restrictions on the location of the operations, among others. Yet, it still comes with some complexity in the management of the programmes. Finally, the lack of alignment between EU and national funding also deserves to be analysed. Other EU programmes with a territorial dimension follow a similar approach as under cohesion policy funds – for instance, in the EAFRD, where categories of regions are not applied, but different co-financing rates are used depending on the level of development.

Other requirements are imposed via various thematic concentration mechanisms. For example, while these have proven useful to make sure cohesion policy funds contribute to specific policy objectives in the context of already pre-allocated budgets by fund, some Member States argue that the rigidity introduced by this approach may undermine their capacity to address strategic issues and emerging needs relevant to economic, social and territorial cohesion. When combined altogether, the possibilities for the Commission, Member States and regions to redirect funding to tackle existing and emerging new needs and priorities outside these areas are limited. The current detailed rules at EU level also limit the degree to which the specificities and diversity of regions can be considered, and hence undermine the place-based approach of cohesion policy.

Limited use of budgetary flexibilities

Most EU funds allocate national envelopes upfront at the start of the programming period. This leaves little room to allocate funding to account for new needs (without reopening the regulatory framework) or to those Member States achieving better results.

Efforts have been made in the current programming period to address emerging needs. The mid-term review of cohesion policy seeks to cater for Member States' new needs but without reallocating funding across Member States. For the 2021-2027 programming period, this mid-term review will be carried out by each Member State by 31 March 2025 and will include a definitive commitment of the flexibility amounts (50% of the amounts for 2026 and 2027). Compared to the 2014-2020 period, the financial resources associated have increased (14% compared to 6% of total allocations) and the review will follow a more qualitative approach, which should better reflect the low levels of implementation in many Member States and ensure a better link to EU policy priorities, and the Semester in particular.

The CAP strategic plans allow, within limits, for budgetary transfers between the two pillars of the CAP as well as for revisions of the Member States' planning to take new developments and priorities into account. However, stakeholders and Member States demand increasing flexibility to shift budgetary allocations within the CAP plans to respond to current geopolitical uncertainties and the increased level of risks and shocks that agricultural activity is confronted with, while also emphasizing the needs for long-term predictability and stability of overall CAP funding for the final beneficiaries[50]- a concern also echoed in cohesion policy, given the long-term nature of investments.

The mid-term review of the Home Affairs Funds follows a different approach: it provides an additional financial allocation to Member States fulfilling a specific requirement at the mid-term stage, based on the same allocation criteria as the initial allocations but with an updated statistical data. As such, it will aim to provide additional funding to Member States taking into account changes in needs.

Furthermore, programming the entirety of Member States' allocations prevents effectively addressing new needs or priorities both in the Member State but also from the Commission's perspective. In this regard, the three Thematic Facilities under the Home Affairs Funds are an innovation, with their multiannual scope (allowing to cater for both short and long-term needs), mix of actions (ranging from Emergency Assistance to support for strategic priorities such as resettlement) and because they combine all three management modes (direct/indirect/shared). The combination of these elements has allowed the Commission to optimise the use of EU funds when having to address both structural needs triggered by e.g. a new security situation or new legislation, and emergencies such as providing support to Member States most impacted by the influx of displaced persons from Ukraine. Overall, stakeholders find that the Thematic Facilities provide flexibility, focus on the key priority needs and key target populations and make it possible to address emergency situations. However, flexibility has also come at the expense of higher administration burden, including for the Commission, with dozens of Common Implementing Decisions adopted every year to approve amendments to the national programmes.

The agricultural reserve is one of the main novelties of the current CAP, aiming to provide additional support to farmers in the event of unforeseen crises. While resources in the reserve were exhausted in the first year of implementation of the CAP (2023), allocations were not exhausted to their full extent in 2024, reflecting the unpredictability of crises affecting the agricultural sector. While Member States agree on the need for better crisis management, many call for a stronger focus on prevention rather than ad-hoc crisis management and for more transparent criteria in the management of the agricultural reserve.

Limited use of transfers

Transfers can be requested up to 20% of the initial allocation by fund between the ERDF, the ESF+ or the Cohesion Fund (or up to 25% for Member States with unemployment rate below 3%). 18 Member States have used this flexibility to a certain extent, however, the negotiations on some of these were very lengthy and complicated. Transfers do not exceed 3% of the EU allocation of ERDF and ESF+ funds, with the notable exception of Belgium, which transferred 8% of its funds from ERDF to ESF+.

On the other hand, Member States may request to transfer up to 5% of the initial national allocation of each fund to any other instrument under direct or indirect management where a landing clause exists. Only two Member States decided to transfer financial

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[50] Council conclusions on a farmer-focused post 2027 Common Agricultural Policy. Link: https://data.consilium.europa.eu/doc/document/ST-16694-2024-INIT/en/pdf

allocations between CPR funds and EU funds and instruments in their Partnership Agreements; amounts are therefore marginal.

Hence, **while transfers of resources between the two CAP funds or among cohesion policy funds seem to be working quite well, there continues to be very little appetite from Member States to transfer resources to other EU programmes, even if these share similar policy objectives or concern policy areas with higher needs.** Several reasons have been given to account for this low uptake of transfer flexibilities:

- the limited budget available in the programme concerned to achieve the increasing set of objectives, coupled with a growing concern that transfers could undermine the programme's objectives as well as the stability and predictability for beneficiaries;

- the lack of flexibility at national level to move resources once they have been divided between authorities, coupled with the preference of Member State to exploit the flexibilities available within the national programmes themselves;

- the lack of experience of managing authorities with transfers – for example, although several Member States were facing challenges in their migration and border management systems at the time of establishing their initial Home Affairs programmes, and have subsequently requested additional support for these systems, only one Member State (EL) used the opportunity offered by the CPR to transfer funds from the Cohesion policy Funds to the Home Affairs Funds when establishing its initial programmes.

- Misalignment in the type of instruments used by different programmes (for e.g., InvestEU focuses on guarantees, while many CAP-supported financial instruments are loans).

- The lack of motivation for transfers from programmes under shared management to programmes directly managed by the Commission, linked to the preference of Member States' administrations to focus on projects of national relevance (which they can select themselves) rather than EU-level projects such as cross-border projects, where the benefits are shared with other Member States (and which depend on the selection from the Commission).

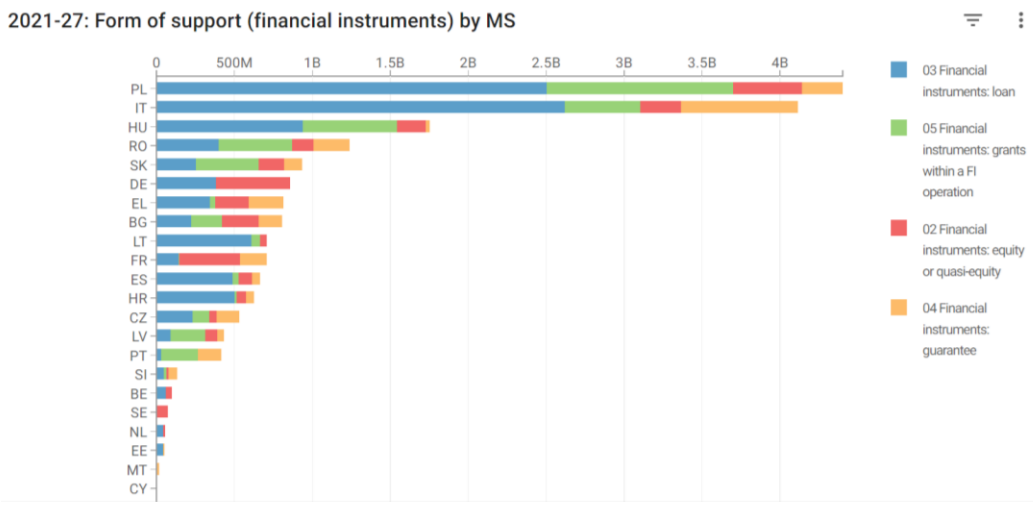
Low uptake of financial instruments

Financial instruments help to trigger investments on the ground for revenue-generating and cost-saving activities while maximising private investment with minimum public support. Financial instruments can provide support for investment in the form of loans, guarantees, equity and other risk-sharing mechanisms.

In cohesion policy, financial instruments play an important role in advancing payments to the Member States, providing a performance-based financing, as their management fees are exclusively performance-based. In a context of scarce EU resources, their use can better leverage investments and enhance the effectiveness of the EU budget. **While their uptake has slightly increased over time, their use remains limited.** For the sake of comparison, in the 2021-2027 programming period, more than EUR 17.8 billion (constant prices – 2018 (tbc)) from the EU budget is allocated under the

ERDF and CF to financial instruments, representing around 7.3% of the ERDF and CF. This is more than in 2014-2020, when EUR 16.7 billion or 6.7% of the ERDF and CF was allocated but remains still very limited. Looking at cohesion policy more broadly, in the 2021-2027 programming period, only about EUR 19 billion (in constant prices – 2018 (tbc) will be allocated via financial instruments, representing only around 6% of the total resources of ERDF, CF, JTF and ESF+.

The uptake in Member States is also very uneven:



[Financial instruments under cohesion policy 2021-2027 | Cohesion Open Data]

Several factors account for the limited uptake of financial instruments:

- availability of grants in all areas and sectors even where financial instruments proved to be efficient and impactful like support to SMEs or energy efficiency. Grants are still the most desired form of support, although some positive experience is in place when it concerns combining grants and financial instruments in a single financial instrument operation, as for example the Alternative Fuels Infrastructure Facility under the Connecting Europe Facility combining grants with financial support from financing institutions for the development of charging/refuelling points for alternative fuels.

- Detailed rules set out in the CPR. Although some aspects were simplified in the 2021-2027 programming period, over-regulation and complexity of rules still lead to inflexible and inefficient use of funds, also stemming from avoiding any risk linked to the audit procedures[51]

- Member States' lack of administrative capacity especially in Member States with weaker institutions such as national promotional banks can still hinder greater use of financial instruments, especially those tailor-made which require expertise, skills and administrative capacity not only in the area of EU funds management but also banking sector;

[51] European Parliamentary Research Service, Briefing, Financial instruments in cohesion policy, October 2019, p. 7.

- Institutions such as the European Investment Bank (EIB), which has a 50% climate expenditure target, and the European Investment Fund (EIF) play a crucial role in supporting EU priorities through financial instruments. However, their capacity to manage an increasing number of instruments will have to be strengthened to avoid delays in negotiating setups, processing applications and disbursing funds.

- Although tailor-made instruments are more popular among national or regional managing authorities, they are more complex than the off-the-shelf ones or those implemented by the EIB group. On one hand, it is linked to the fact of different, simpler rules linked to state aid or public procurement that are required in case of EIB-led instrument. On the other hand, decentralisation of implementation has led in some Member States to compartmentalisation of the offer of financial instruments which are too small, too differentiated in order to bring economies of scale and attract more private capital.

- On the other hand, as experienced in the RRF, Member States sometimes used the flexibility of the rules on financial instruments strategically - to temporarily allocate funds which enabled them to meet the timeline requirements of various EU programmes While this approach provides flexibility and helps avoid the risk of losing allocated funds, it can delay high-impact investments and contributes to lower transparency regarding the absorption at the level of final recipient , potentially undermining the effectiveness of EU funding in achieving long-term goals.

Some sectors, such as nature, have to rely on grants due to difficulties in attracting private investment, and their small scale can also deter larger financing institutions[52]. On a smaller scale, financial instruments are also used under the EAFRD and the EMFAF or are being piloted under the Home Affairs Funds. For instance, the EMFAF mid-term evaluation showed that the uptake of financial instruments has been undermined by the complexity of the rules and small scale of the fisheries sector. Other, larger sectors with less complexity are easier to cater for by financial instruments. Under the EAFRD, compared with the past, support for financial instruments (EUR 1 billion) has increased - facilitating access to investments, with a focus on small and young farmers as well as on cooperatives and producer organisations, but their uptake is still relatively limited. Overall, Member States and beneficiaries showed limited interest, calling for further simplification to ensure a stronger uptake of financial instruments.

Problem driver 6: The delivery models are too complex

The implementation of EU funds with nationally pre-allocated envelopes is often hindered by gold plating practices in Member States particularly on management and control practices, a lack of mature project pipelines against the backdrop of multiple funding sources and weak administrative capacity. The complexity of EU funding programmes and governance models also often hinders the smooth implementation of EU projects. This has resulted in bottlenecks in absorbing allocated funds effectively and on time or in an increased estimated level of error in spending from the EU budget.

Simplification measures in in the CPR are not fully exploited

Currently, most payments in EU spending programmes under the CPR umbrella policy continue to be based on real costs – i.e. Member States are reimbursed on the basis of beneficiaries´ expenditure. Relying on real costs brings complexity and burden for Member States' authorities and beneficiaries and is also more prone to errors. Furthermore, the focus is on managing invoices rather than the results achieved by EU funding. The use of simplified cost options (SCOs) – unit costs, lump sums and flat rates – has increased but remains limited. Unit costs and lump sums retain a link to costs of the particular action because the amounts are calculated ex-ante as an approximation of the actual costs. However, these costs are not checked afterwards, and the pre-defined amount is paid once the output is delivered. The impact on performance is indirect, driven by simplification – instead of managing invoices, beneficiaries can focus on the implementation of investments. As a rule, mandatory use of SCOs applies to all operations below EUR 200,000. 13% of the ERDF expenditure (supplemented by 3% of CF expenditure and close to 12% of JTF expenditure) is reimbursed via SCOs at Member State/beneficiary level. While take-up is still low, overall, the amount of expenditure covered is steadily increasing with the pace of programme implementation and has almost doubled compared to the 2014 – 2020 period. Interreg cross-border cooperation programmes are obliged to use simplified cost options when supporting small projects where the public contribution from the EU or national funds does not exceed EUR 100,000. This is largely perceived as a major simplification for beneficiaries.

ESF+ is the frontrunner in the use of simplified cost options. While one-third of the ESF budget was implemented through SCOs during 2014-2020, at the time of writing, some 40% of the 2021-2027 ESF+ budget is implemented through SCOs and FNLC. Stakeholders consider that the use of SCOs reduces administrative burden for beneficiaries and managing authorities, simplifies management process and facilitates payments, and is less error prone. Member States represented in the ESF Simplification Transnational Network have adopted an opinion calling for abandoning real costs.

Under Financing Not Linked to Costs (FNLC), payments are conditional upon the achievement of results and the fulfilment of conditions. The use of FNLC at micro-level remains sporadic. Despite the simpler payments and delivery it offers, only 12 FNLC schemes (mostly in the ESF+) have been approved by the Commission in 9 Member States, amounting to EUR 4.5 billion and additional 5 FNLC schemes in 5 Member States are currently under preparation for EUR 0.7 billion. Another recent example of FNLC for specific actions was the almost EUR 400 million made available under the Asylum, Migration and Integration Fund (AMIF) and the BMVI to support Member States in welcoming Ukrainian refugees. Payments were linked to the achievement of pre-defined targets (e.g. number of additional "first capacity" places created for refugees from Ukraine) to allow Member States to receive EU funds quickly and flexibly – without needing to develop projects with detailed cost estimates.

Overall, the lack of experience and/or capacity in Member States' managing authorities, coupled with the difficulties in accessing relevant, quality data to define the appropriate performance indicators, continue to be seen as bottlenecks in implementing simplified forms of funding. Time constraints related to implementation of parallel EU funds and programmes and divergent legal interpretations among relevant actors – from the Commission to Member States' managing authorities or the European Court of Auditors – further complicate their uptake.

The CAP: a delivery model based on performance and costs

The Common Agricultural Policy has moved closer to a performance-based delivery model, whereby all interventions are planned ex-ante and linked to specific output and result indicators in the CAP Strategic Plans. The CAP retains elements of a cost-based delivery model as the amounts reimbursed are the actual costs incurred by Member States when reimbursing beneficiaries. These costs can be based on costs incurred by the beneficiary, unit costs or lump sums implemented by Member States.

The move towards a more performance-based delivery model has been welcomed by stakeholders but came with high transition costs and a steep learning curve. Furthermore, it did not always translate into simplification for Member States authorities or farmers. For instance, Member States still need to ensure the regularity and legality of EU funds spending at beneficiary level. The challenge has been even greater for regionalised Member States who needed to redefine the cooperation mechanisms between the regional and national levels.

In this context, the Commission launched a simplification exercise in 2024 to provide more flexibility for Member States' authorities and farmers. Other actions to reduce the administrative burden are under way and include, among others, reducing reporting obligations, as well as removing the annual performance clearance, while the outcomes of two studies on the administrative burden for farmers and on the new delivery model will help identify further actions to simplify policies for farmers (expected in 2025).

RRF: faster disbursements but administrative burden remains high

The RRF is the first large-scale programme with a performance-based delivery model. Under the Facility, the justification for receiving payments is not directly related to the costs incurred on the ground: it depends on the satisfactory fulfilment of pre-defined milestones (e.g. adoption of a law) and targets (e.g. number of people trained) capturing the key implementation stages of the investments and reforms laid down in the national RRPs. Costs have been estimated once ex-ante but are not reassessed at the time of payments. In this delivery mechanism, the milestones and targets included in the plans can cover the full lifespan of the supported measure and may cover interim steps (e.g. launch of calls, completion of half of the projects). As noted in the mid-term evaluation on the RRF, this allows for faster disbursements and can help Member States get funds upfront to finance some of their investments. The fulfilment of milestones linked to reforms – which do not necessarily involve costs as such – also impacts the level and timing of disbursements that have been negotiated with Member States with the view to provide a strong incentive to frontload reforms.

However, in the same evaluation some national authorities also found the definition of milestones and targets too detailed and the fixed composition of groups of milestones and targets for each instalment too rigid. While subsequent revisions of the plans made milestones and targets more focused and simpler to implement, and the broader use of partial suspension mechanisms improved the delivery model's flexibility, these adjustments came at a high resource cost, and significant challenges persist. Moreover, in most Member States, the disbursement from Member States' authorities to beneficiaries for measures supported by the RRF in the Member States is almost exclusively done based on expenditure which strongly limits the simplification for beneficiaries.

The analysis of problem driver 7 is fully covered within the main body of this impact assessment.

ANNEX 8: OVERVIEW OF THE DELIVERY MODEL AND MANAGEMENT FUNDS OF CURRENT EU FUNDS WITH NATIONALLY PRE-ALLOCATED ENVELOPES

Delivery model

Name of the fund	Delivery system	
	Cost-based	Performance-based
Cohesion policy (ERDF, CF, ESF+, JTF, Interreg)	X	X*
European Maritime, Fisheries and Aquaculture Fund	X	
Social Climate Fund		X
Modernisation Fund	Sui generis	
CAP (European Agricultural Fund for Rural Development & European Agricultural Guarantee Fund)	X	X
Home affairs funds (AMIF, BMVI, ISF)	X	
LIFE	X	
CEF	X	

** A number of Member States receive funding based on performance achieved and conditions fulfilled on the ground (FNLC), especially under the ESF+.*

Management mode

Name of the fund	Management mode	
	Shared[53]	Direct
Cohesion policy (ERDF, CF, ESF+, JTF, Interreg)	X	
European Maritime, Fisheries and Aquaculture Fund	X	
Social Climate Fund		X
Modernisation Fund	Sui generis	
CAP (European Agricultural Fund for Rural Development & European Agricultural Guarantee Fund)	X	
Home affairs funds	X	X
LIFE		X
CEF		X

[53] Many of the programmes that are mainly implemented under shared management also include strands that are directly managed by the Commission (e.g. EaSI strand in ESF+; directly managed funding under EMFAF). However, since these only represent a minor part of the total budget of the programmes, the table only focuses on the main type of management mode.

ANNEX 9: SUMMARY OF THE IMPACT OF COHESION POLICY INTERVENTIONS

Europe has experienced a significant dynamic of upward convergence over the last 20 years as GDP per capita growth has often been higher in the less developed regions of the EU. In 2000, GDP per capita (PPS) in the less developed regions was around 51% of the EU average while by 2022, it had increased to more than 64% of the EU average.

However, growth and development seem to stagnate in a number of EU regions. A group of transition (middle income) regions even started diverging from the EU average after 2008, mostly in Southern Europe (e.g. Italy and Greece) but also in North-Western Europe (France or Germany). In 2022, GDP per capita in the transition regions had declined to around 85% of the EU average, from 91% in 2000.

Overall, disparities remain high in the EU. In 2002, GDP per capita in the most developed region is almost 10 times as high as in the least developed regions. It is 3.3 times higher in the 10% most developed regions of the EU than in the 10% least developed regions. Fostering economic, social and territorial cohesion is therefore important as ever. It is a key condition to keep the citizens' support to the European values and avoid the polarization of EU societies and several studies (e.g. Dijkstra et al., 2020) have demonstrated how Eurosceptic voting is linked to so-called "regional development trap" and how places which feel left behind are faced with disengagement and discontent in the long term.

Place based policies are best suited to tackle disparities and enhance cohesion. Indeed, as emphasized by numerous analyses, interventions aiming at boosting economic performance, competitiveness and development must be tailored to the local context to be successful. The EU cohesion policy has often been put forward as exemplifying such kind of policies, notably for addressing fundamental market failures that prevent adjustment mechanisms from working effectively, so that disparities may be persistent (Venables, 2023). Sub-national levels of government (regions or localities) have been shown to play a critical role for economic development (Barca, 2009; Barca et al., 2012; Beer et al., 2020; McCann, 2015). In particular, subnational tiers of government are key stakeholders in the design and the implementation of contextually tailored economic development strategies that reflect local socioeconomic, institutional characteristics, conditions, and realities (Rodrigues-Posé and Wilkie, 2017). At the same time, this has not prevented cohesion policy to mainstream some key EU priorities in the Member States and their regions by earmarking investments to fields of interventions aligned with those priorities.

The recent ex-post evaluation of the 2014-2020 programmes has gathered a wealth of evidence demonstrating the capacity of cohesion policy to boost economic performance, improve social cohesion and reduce development gaps.

Some achievements of the 2014-2020 programmes:

- Over 2.36 million enterprises had received support by the end of 2022;
- 228 000 new enterprises were created and 84 000 enterprises developed new-to-market or new-to-firm-products/services;

- 7.88 million additional households had access to broadband;
- 17.3 million people benefiting from the flood protection measures supported;
- Nearly 6 000 megawatts of renewable energy capacity created;
- 3 560 km of new roads being constructed by the end of 2020, mostly on the TEN-T network, with another 8 400 km of road being renovated and 2 100 km of rail being reconstructed again mostly on the TEN-T network;
- 7.4 million participants in EU-funded schemes targeting employment and labour market integration, education, and social inclusion had found a job and 10.2 million had obtained a qualification;
- 24.6 million children and young people had benefited from the childcare facilities and education infrastructure that had been built.

At the macroeconomic level, results of model simulations suggest that cohesion policy interventions have positive effects on the EU economy and has good value for money. The potential impact of 2014-2020 programmes could be to raise EU GDP by up to 0.6% by the end of their implementation. The policy enhances the structure of the EU economies and its impact are still felt in the long run. Analysis suggests that 25 years after the end of the programming period, each euro affected to the policy could generate around 3 euro of additional GDP in the EU, the equivalent of a yearly rate of return of about 4%.

The impact of the policy is particularly high in the less developed regions of the EU, which are its main beneficiaries (Eastern Member States and regions as well as Portugal and Greece). By the end of the implementation period, GDP in the less developed regions will be 3.4% higher in 2023 thanks to cohesion policy investments. Cohesion policy therefore contributes to reduce disparities in the levels of development between EU regions, both across the Union and within Member States. For instance, at the end of the implementation period, the 2014-2020 programmes are estimated to have reduced the gap between the 10% top and bottom regions in terms of GDP per head by more than 3.5%.

> To enhance cohesion and keep reducing disparities, investing in the less developed regions of the EU must remain a priority. It is sometimes argued that growth created by investing in more developed regions would trickle down to less developed regions and hence indirectly foster convergence, but recent analysis (Barbero et al., 2024) has shown that, if indeed less developed regions may benefit from spillovers originating from more developed regions, these are not strong enough to actually reduce the extent of regional disparities.

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ANNEX 10: IMPACTS ON ADMINISTRATIVE COSTS OF THE OPTIONS ON THE SCOPE OF THE PLANS

Context

The study on the assessment of the administrative costs and administrative burden in the management of the CPR funds 2021-2027 (DG REGIO) shows that the administrative costs **varies significantly across the CPR funds** and **Member States**, with differences in time, staffing and outsourcing costs.

There seems to be **a negative correlation between the size of the programme** and **the level of administrative costs within a programme.** In fact, **Interreg** programme authorities reported the **highest administrative** costs, reflected in significant time requirements and high outsourcing costs. BMVI beneficiaries also reported **high outsourcing costs** but lower time requirements, suggesting that external support is used for specific administrative tasks. In contrast, multi-fund programmes, as well as ERDF and ESFF+ have lower time and outsourcing costs, suggesting more streamlined application processes.

- Interreg exhibits the highest median cost of **68 894 EUR per million EUR spent;**
- Programmes under the **ERDF**, have a **median cost of 21 214 EUR per million EUR spent.** The results suggests that the distribution of administrative costs is relatively compact, with most programmes experiencing low costs and minimal variation;
- **Cohesion Policy funds** have a median cost of **34 571 EUR per million EUR spent;**
- The **JTF has a median cost of 30 939 EUR per million EUR spent,** but the plot reveals even tighter variability compared to ERDF;
- **The median costs of EMFAF programmes are 62 228 EUR per million EUR spent;**
- The HOME-funds also has relatively high administrative costs, with a **median of 53 802 EUR.**
- **The ESF+** has the lowest median cost per EUR million spent (EUR 18 625 per EUR million spent).

Table 2. Key indicators of administrative costs per fund

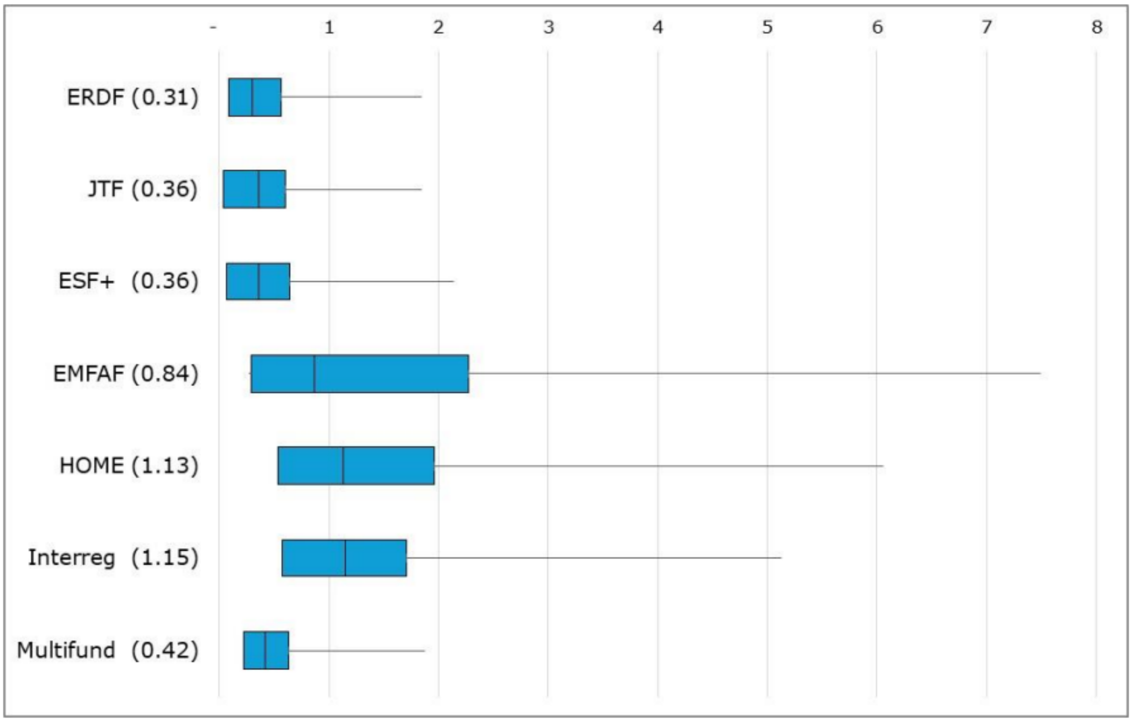
Fund	Average	Median	Total	No of programmes
Cohesion Policy funds [7]	**46 703 €**	**34 571 €**	**22 171 €**	**405**
ERDF	30 694 €	21 214 €	17 985 €	92
ESF+	35 640 €	18 625 €	19 652 €	82
JTF	27 596 €	30 939 €	29 714 €	10
Interreg	84 422 €	68 894 €	61 532 €	85
Multi-fund	29 982 €	27 309 €	21 754 €	110
EMFAF	74 580 €	62 228 €	57 717 €	26
HOME	**63 796 €**	**53 802 €**	**49 042 €**	**78**
AMIF	58 991 €	53 776 €	46 600 €	26
BMVI	58 249 €	47 505 €	45 896 €	26
ISF	74 149 €	71 816 €	71 993 €	26
TOTAL	**48 417 €**	**37 968 €**	**22 859 €**	**483**

Source: elaboration of the consortium based on survey with programme authorities.

Source: Assessment of the administrative costs in the management of the Common Provisions Regulation Funds 2021-27 (Second interim report), March 2025.

Likewise, **FTEs have considerably lower variability in the ERDF, JTF, ESF+ and Multi-fund programmes compared to HOME-fund, EMFAF and Interreg programmes**. Especially HOME- and Interreg programmes show very long upper whiskers, suggesting the existence of strong outlier programmes with considerably more FTEs per million EUR spent. Similarly, median values for the CPR funds range between 0,3 – 0,4 FTEs per million EUR spent, while programmes of other funds have higher median values ranging from 0,84 (EMFAF) – 1,15 (Interreg)

Figure 5. Distribution of FTEs per million EUR spent by fund (n=483)



Source: elaboration of the consortium based on survey with programme authorities.

The external study supporting the mid-term evaluation of the RRF states that the administrative costs sustained by the European Commission for the RRF were budgeted at **EUR 88.2 million**. These encompassed costs related to the setup, RRP preparation and amendments, audit and control, payment claim, communication and performance management. At Member State level, administrative costs comprise staff costs and costs related to setting up the governance structure, drafting and amending RRPs, stakeholder consultations, and informal and formal processes related to the plan submission. Since the assessment of milestones and targets is the Commission's responsibility, the related costs are not borne by the Member States. When comparing administrative costs to the total planned funding (for both grants and loans), variations per Member State are not very pronounced. For all countries, **the administrative costs per EUR million are less than EUR 2,500**, which is considerably lower than the figures reported in the CPR 2021-2027 study. It should be taken into account that in implementing their plans Member States largely relied on existing governance arrangements and structures in place for shared management which were not considered additional costs in the RRF study.

While the figures of this supporting study and the ongoing study on the second interim report on the administrative costs in the management of the CPR funds 2021-2027 are not directly comparable given their different methodologies and management modes, they provide a starting point to make assumptions for the quantification of the impacts on administrative burden. Indeed, **it is possible to assume that moving to one plan, with a wide eligibility scope and the same rules would lead to a substantial reduction in administrative costs over time.**

Two studies are ongoing regarding the CAP – one on the administrative burden for farmers and one on the new delivery model of the CAP. However, neither study was mature enough to be taken into account in the impact assessment.

Approach: baseline scenario and assumptions

In the absence of a dedicated analysis of costs, this quantitative analysis is based on the data of the second interim report on the assessment of the administrative costs and administrative burden in the management of the CPR funds 2021-2027. It should be noted that the data used is therefore not final, as the study has not been published yet.

A reduction factor is applied to Options 1 and 2, reflecting the expected simplification from integrating the concerned spending programmes into the plans which follow the same rules (e.g. delivery model; management mode; financial management, etc.). The reduction factor varies between Options:

- It is higher for Option 1 (50%) considering the similarities that already exist between these funds which are covered by the CPR;
- Option 2 also assumes a 40% reduction factor given the similarities that already exist between Pillar II of the CAP and cohesion policy.
- Option 2b assumes a 30% reduction factor, considering the need to cater for the specificities of direct payments.

Setting a reduction factor is inherently difficult and represents a methodological assumption. However these factors rely on the existing data, in particular the fact that the differences that exist per fund within the CPR have large differences between themselves, showing the potential for simplification: EUR 37 968 per EUR million spent for the total CPR funds vs EUR 18 625 per EUR million spent for the ESF+, the lowest figure for a fund in the category (a reduction factor of around 50%). While the ESF+ has a much stronger homogeneity in terms of interventions than other funds (e.g. ERDF), this does not seem to be the driving factor behind the lower administrative costs since other funds with a reduced scope (e.g. home funds) also report high administrative costs.

To make sure these reduction factors are as realistic as possible, they are not based on the figures calculated in the RRF mid-term evaluations as the methodologies were not equivalent (CPR funds set at EUR 37,968 per EUR million spent and RRF with EUR 2,500 per EUR million spent) and also because the future plans will continue to rely on a multi-level governance structure and shared management.

Option 3 is not included in the quantitative analysis as the integration of the Modernisation Fund would bring additional adjustment costs to Member States (which currently only need to comply with simpler rules).

Estimates

Option	**Total administrative costs per million EUR spent**
Status quo	37,968
Option 1	18,984
Option 2a	22,781
Option 2b	26,578

From the above, it seems that both **Option 1 and Option 2 would massively reduce administrative costs for Member States compared to the status quo**. Options 1 and 2a would bring the biggest reduction, followed by Option 2b.

ANNEX 11: RHOMOLO ANALYSIS OF THE THREE OPTIONS ON THE DELIVERY MODEL

The options analysed here regarding the delivery model of the pre-allocated envelopes post-2027 are the following:

A) Cost-based finance model with the possibility to disburse funds based on performance (basically business-as-usual);

B) Delivery against pre-agreed objectives (payments made only upon fulfilment of milestones and targets);

C) Hybrid model (payments largely made only upon fulfilment of milestones and targets, but allowing for payments based on expenditure in some cases).

On this basis, the modelling analysis has been carried out as follows.

The RHOMOLO model (Barbero et al., 2024[54]) has been used to simulate the impact of cohesion policy interventions for the period 2021–2027 in all scenarios. In the absence of information on the budget assigned to the Funds for the next programming period and the geographical and sectoral distribution of investments, as well as the nature of the investments themselves, this analysis is based on the evaluation of the impact of Cohesion Policy 2021-2027 presented by Christou et al. (2023[55]).

Therefore, in all scenarios, the policy interventions are introduced into the model with a combination of demand-side and supply-side shocks (as in Crucitti et al., 2024[56]). Lump-sum contributions proportional to the GDP weights in the EU are also introduced to mimic the financing of the policy via the EU budget. The differences between the three scenarios lie in the time profile of the interventions and in the assumed efficiency of the supply-side effects.

In particular, the supply-side effects are increased by 10% in Scenario B compared to Scenario A, and by 5% in Scenario C (due to the focus on results rather than spending). The time profiles of the spending in the three scenarios are as follows:

Year à	1	2	3	4	5	6	7	8	9	10
Option A	0%	2%	4%	8%	12%	14%	16%	17%	14%	12%
Option B	6%	7%	12%	12%	15%	17%	17%	14%	0%	0%
Option C	6%	7%	8%	12%	15%	17%	9%	10%	8%	7%

Source: European Commission’s Directorate-General for Budget (DG BUDG).

54 Barbero, J., Christou, T., Crucitti, F., García Rodríguez, A., Lazarou, N.J., Monfort, P., and Salotti, S. (2024). A spatial macroeconomic analysis of the equity-efficiency trade-off of the European cohesion policy. *Spatial Economic Analysis* 19(3), 394-410.
55 Christou, T., Crucitti, F., Garcia Rodríguez, A., Lazarou, N., Monfort, P., and Salotti, S. (2023). The RHOMOLO ex-ante impact assessment of 2021-2027 cohesion policy. Territorial Development Insights Series no. JRC133844, European Commission, Joint Research Centre Seville.
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The interventions are deployed over a ten-year period in all three cases. However, Scenario B (and, to a lesser extent, Scenario C) involves faster disbursement (frontloading) than Scenario A, the latter of which is based on the 2014–2020 payment profile of Cohesion Policy.

The modelling results presented here are expressed as differences from the cumulative 15-year GDP multiplier of Scenario a). The GDP multiplier is a figure that can be interpreted as the number of euros of GDP generated over a given period for each euro spent on the policy. For example, a 15-year multiplier of 3 means that 15 years after the start of the policy, GDP has increased by 3 euro for every euro invested in the policy. As Scenario A represents the status quo, its specific GDP multiplier is not relevant and may correspond to the multiplier of one of the current EU policy programmes.

The 15-year cumulative GDP multiplier for Scenario B is 29.5% higher than for Scenario A; 70% of this difference is due to frontloading investment and the remaining 30% is due to additional supply-side effects of 10%.

Similarly, the 15-year cumulative GDP multiplier of Scenario C is 19.5% higher than that of Scenario A, with 79% of this difference being attributable to frontloading investment and the remaining 21% to the additional 5% supply-side effects.

Therefore, frontloading investments means the benefits to GDP of the interventions start to materialise earlier, leading to larger cumulative GDP gains over time. Furthermore, larger supply-side effects lead to higher GDP multipliers.