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THE RECOVERY PLAN FOR EUROPE AND COHESION POLICY: AN INITIAL ASSESSMENT

John Bachtler, Carlos Mendez and Fiona Wishlade

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Glasgow - Delft
European Policies
Research Centre

European Policies Research Centre
School of Government and Public Policy
University of Strathclyde
40 George Street
Glasgow G1 1QE
T +44 (0) 141 548 4898
T +44(0) 141 548 3061
E eprc@strath.ac.uk
W http://www.eprc-strath.eu/

Stichting EPRC Delft
Faculty of Architecture and the Built Environment,
Technische Universiteit Delft
Julianalaan 134
2628 Delft
T +31 (0) 15 27 86093
E info@eprcdelft.eu
W http://www.eprc-strath.eu/

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EXECUTIVE SUMMARY

The massive economic, financial and social impact of the COVID-19 crisis presents a huge policy challenge at all levels of government. The EU agreed in April 2020 on a 'road-map' for a recovery to relaunch the EU economy. The European Commission has now put forward proposals to implement the road-map, including territorially focused interventions to support economic, social and territorial cohesion. The **Recovery Plan for Europe** comprises three elements: a revised proposal for the Multiannual Financial Framework (MFF) for 2021-27; a 'recovery instrument' termed Next Generation EU; and further resources committed outside the EU budget.

The package has both **short and medium-term budgetary implications for Cohesion Policy**, notably the €55 bn REACT-EU 'top-up' for Cohesion Policy for 2020-22 and a new thematic priority. Changes to the Cohesion Policy 2021-27 Regulations propose greater flexibility for financial transfers and reactivity through an emergency response mechanism. For 2021-27, additional resources are proposed through the Recovery and Resilience Facility (RRF), with a mix of grants and loans under national recovery and resilience plans up to 2024, although the implications for territorial cohesion are unclear.

A first political discussion of the MFF was held in the European Council on 19 June 2020. Although there was **a broad measure of agreement on the principles and general approach of the recovery package**, it was evident that there were **important differences among Member States on key issues**. Member States divide into those broadly supportive of the Commission proposals (e.g. France, Germany, Italy, Portugal), those supportive but with reservations on key issues (e.g. Poland, Hungary, Czech Republic), and those with significant concerns (e.g. Austria, Denmark, Finland, Netherlands, Sweden). Five important issues are the overall size of the package, the relative importance of grants, loans and guarantees, the mutualisation of debt, the methods for allocating funding, the rule of law conditionality, and the implications for Own Resources.

With respect to the **budgetary implications,** the revised MFF proposals involve a *reduction* of funding to economic, social and territorial cohesion, compared to the Commission's 2018 proposals, but with the scale of the reduction somewhat less in 2025-27. However, it is unclear what underlies the changes proposed.

Unlike some other elements of the Recovery plan for Europe, such as the RRF, JTF and the EAFRD, there are no indicative national allocations for REACT-EU as yet. Allocations are expected to be made in autumn 2020 and 2021 for 2020-2021 and 2022, respectively. Allocations are proposed to be on the basis of a distribution key, which would allocate funding largely on the basis of relative loss of GDP, adjusted by national prosperity.

An estimation of the possible REACT-EU allocations to Member States suggest, unsurprisingly, major flows to southern EU countries - Italy and Spain alone could account for over 45 percent of all REACT-EU allocations. Poland and Romania would also be major beneficiaries. However, it must be stressed that, at this stage, the implications for Cohesion Policy funding remain rather opaque.

Regarding **implementation issues**, programme authorities have welcomed the administrative flexibilities introduced in CRII and CRII+ to respond the crisis. Resources are being reallocated into the health and social care sectors and to support businesses and employment. Where resources for 2014-20 were already largely committed, responses have focused on adjusting calls and supporting existing beneficiaries to adapt to the new context. A greater role for ESIF is expected during the recovery phase including the use of additional funding provided through the proposed REACT-EU initiative.

Critical to the European Recovery Plan measures for investment is the ability of Member States to spend the additional resources in a timely manner, and to undertake the associated reforms. There are concerns about insufficient coherence across the new EU instruments and with Cohesion Policy, owing to the different objectives and allocation methods of the instruments, uncertainty about the links with wider green and digital agendas and the European Semester, and the absence of a specified territorial dimension to REACT-EU and especially the Recovery and Resilience Facility.

The increased funding for Cohesion Policy is of course welcomed by programme authorities and regional interest groups, including the use of 2020/21 data in the REACT-EU allocation key to capture better the adverse impact of the crisis, as well as the mid-term review of the mainstream Cohesion funding. The provisions to allow transfers from Cohesion Policy to other instruments, especially to the RRF, is feeding existing concerns about the policy becoming a delivery vehicle for wider EU thematic objectives and fears that it could lead to a reduction of cohesion resources.

Overall, the Commission’s proposals represent an ambitious and impressive response to the massive economic impact of COVID-19, all the more so because they have been developed within such a short time frame. The question is whether the Commission has been overambitious, given the need to reach political agreement, determine a universally acceptable allocation of funding, agree new legal frameworks and – crucially – have the institutional capacity in place to manage the different instruments and spend significant new funding.

1 INTRODUCTION

The massive economic, financial and social impact of the COVID-19 crisis presents a huge policy challenge at all levels of government. With almost 2.4 million cases of COVID-19 and more than 190,000 deaths,[1] Europe has been badly affected by the pandemic whose future course is still uncertain. The restrictions introduced to contain transmission have severely reduced consumption and investment, and disrupted trade and supply chains. Huge funding programmes have been introduced to manage the health and social care response to the pandemic, and to support business survival, job retention, income and social security.

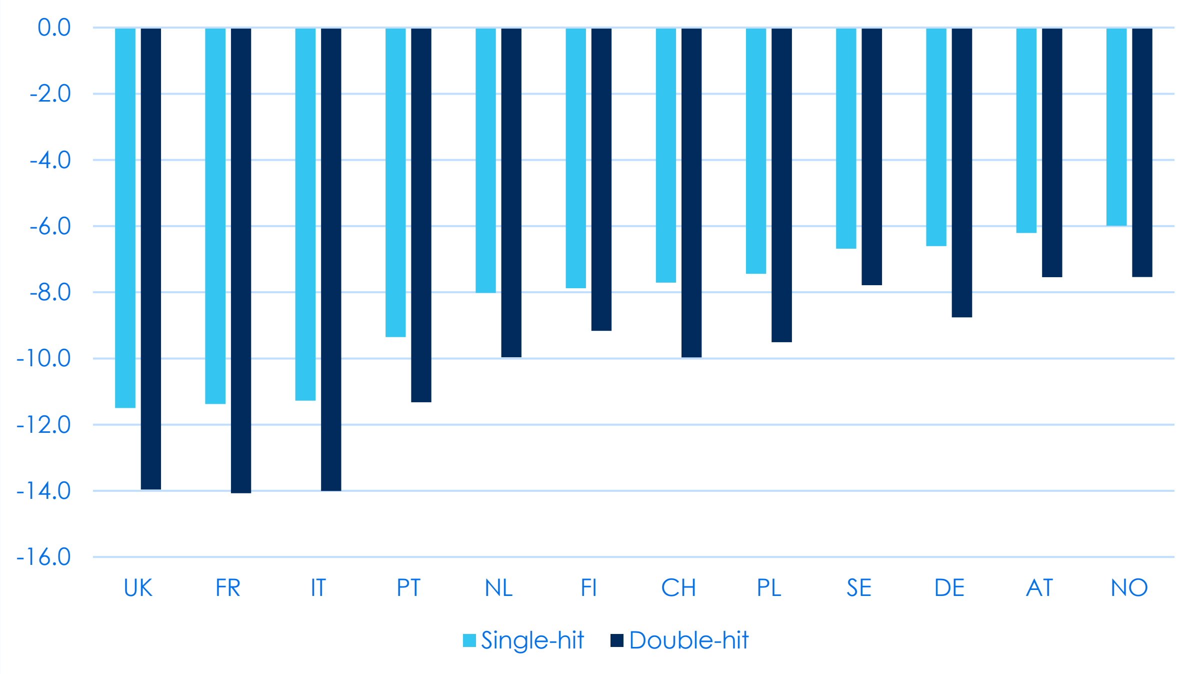
> ***"The COVID-19 pandemic is a global health crisis without precedent in living memory. It has triggered the most severe economic recession in nearly a century and is causing enormous damage to people's health, jobs and well-being."*** [2]

The latest OECD forecast predicts a drop in GDP of 40 percent for Q2 compared to Q1, and a doubling in unemployment for the OECD countries from 5.5 percent to 11 percent, with Spain, Italy, Portugal, Ireland, the United Kingdom and France particularly badly hit. Among the EoRPA countries (see Figure 1), the forecasted fall in real GDP for 2020 (under a 'single-hit' scenario') ranges from -6 percent in Norway to -11.5 percent in the UK. These reductions would be exacerbated under a 'double-hit' scenario with a second wave of the pandemic, with reductions in real GDP of up to 14 percent in the United Kingdom, France and Italy.

For the EU, the European Commission forecasts a contraction of real GDP by c.14 percent in the second quarter of 2020, compared to the same quarter in 2019. For 2020 as a whole, GDP is expected to fall by 7.4 percent, and only partial recovery of 6.1 percent in 2021. Most Member States are expected to have a lower level of output at the end of 2021 than prior to the Covid-19 crisis. The large majority of Member States will have a lower level of output at the end of 2021 than when the CoVid-crisis erupted.[3]

As COVID-19 transmission rates have declined in European countries, restrictions have been eased and economies opened up. Policymakers are trying to balance continued containment of the virus (and awareness of the possibility of a 'second wave') with a progressive restarting of economic activity, including cross-border flows such as tourism. At local, regional, national and European levels, recovery plans are starting to be implemented.

Figure 1: Forecast annual growth in real GDP, 2020 (%)



Source: *OECD Economic Outlook, June 2020, https://data.oecd.org/gdp/real-gdp-forecast.htm*

The economic impact of the pandemic, and the capacity for recovery, vary greatly across sectors and regions, depending on national ability to control the spread of the virus, the duration and stringency of lockdown measures, regional economic structures and the scope to support economic activity and resilience. As the Commission has noted:[4]

> "The relative weight of the… .hard-hit sectors [e.g. services, tourism, automotive, textiles in a Member State's economy is an important determinant of the gravity of the economic shock. The Covid-19 crisis has affected economies with sizeable tourism sectors particularly severely. Equally, economies with underdeveloped capital markets and those whose structure is mainly based on small and very small enterprises will also face more difficulties to their limited access to financing sources."

Mapping of the spatial economic effects of the pandemic shows big regional differences – particularly between more-developed and less-developed regions of the EU - based on factors such as share of SMEs, use of ICT, reliance on international trade, household savings, poverty levels, and dependency on international remittances. Many southern European regions are regarded as being among the worst affected.[5]

Against this backdrop, the EU agreed in April 2020 on a 'road-map' comprising a "coordinated exit strategy, a comprehensive recovery plan and unprecedented investment" to "relaunch and transform" the EU economy.[6] The European Commission has now put forward proposals to implement the road-map, including territorially focused interventions to support economic, social and territorial cohesion.

This paper provides a first assessment of the Commission's proposals for the European recovery plan. It begins by outlining the context for the plans, and the main budgetary elements of the proposals. The paper then reviews the political reactions to the proposal, identifying the main differences between Member States and the principal issues of concern. It then examines the budgetary implications, focusing particularly on how the REACT-EU instrument might be allocated across Member States. The paper also reviews the implementation issues associated with the proposals, particularly regarding absorption and coherence of the package, taking account of experience on the ground and the views of regions.

2 EUROPEAN RECOVERY PLAN – THE NEW EU BUDGET

2.1 Context

The European Recovery Plan comprises three elements: a revised proposal for the Multiannual Financial Framework (MFF) for 2021-27, a 'recovery instrument' termed Next Generation EU, and further resources committed outside the EU budget.

Prior to the Covid-19 crisis, the MFF negotiations in the Council had appeared to be deadlocked. The Negotiating Box produced under the Finnish Presidency, in advance of the European Council in December 2019[7] proposed an overall level of €1,087 billion for 2021-2027, representing 1.07 percent of EU GNI. Under this proposal, the sub-Heading for 'Economic, social and territorial cohesion' would be a maximum of €374,056 billion of which €313,000 billion would be for the Investment in growth and jobs goal.

No agreement could be reached at the European Council on 12-13 December 2019, with the European Council President, Charles Michel, describing the negotiations as "the most difficult one ever in EU history because of the Brexit gap".[8] A series of bilateral 'confessionals' undertaken by the European Council President over the subsequent two months failed to bridge national differences, and the Special European Council held on 20-21 February 2020 concluded without agreement on the overall level of the MFF, the volumes of the main policy areas, the issue of financing (including revenues and corrections), and the proposed conditionalities and incentives.

The situation changed dramatically as a result of the crisis, and it became increasingly clear during March/April 2020 that the economic impact of Covid-19 necessitated a fundamental reconsideration of the EU budget as part of its response to recovery, although there were key differences among Member States and EU institutions on the scale and mechanism. As the country earliest affected by the pandemic on a huge scale, Italy was particularly outspoken on the need for an EU response, coordinating a joint letter of nine Member States (in late March 2020) calling for "the activation of all existing common fiscal instruments to support national efforts and ensure financial solidarity, especially within the Eurozone." Later, it warned not to "repeat the mistakes of the past by doing too little or reacting too slowly" with implications for widening of divergence between Member States and jeopardizing the single market and the unity of the EU.[9]

Spain was also an early advocate of a strong EU recovery package, producing a non-paper[10] recommending a recovery fund of €1-1.5 trillion, financed through 'perpetual EU debt' and used to make grants to Member States to finance national post-crisis reconstruction. It also proposed a revised MFF with a budget ceiling of 1.114% of GNI as the basis for discussion.

On 23 April 2020, the European Council agreed on the need for a European recovery plan, and welcomed a Joint Roadmap for Recovery, prepared by the Commission and Council President. Based on the principles of 'solidarity, cohesion and convergence', the Roadmap defined four key areas for action: a fully functioning Single Market, an unprecedented investment effort, acting globally, and a functioning system of governance.

Subsequently on 18 May 2020, the French and German governments[11] proposed a 'Recovery Fund' of €500 billion "for the most affected sectors and regions on the basis of EU budget programmes and in line with EU priorities" with "a clearly specified volume and expiry and linked to a binding repayment plan beyond the current MFF on the EU budget". The initiative also included proposals for developing 'strategic health sovereignty' with an EU Health Strategy, speeding up the 'green and digital transitions', and strengthening the economic and industrial resilience of the EU with new impulses for the single market. Crucially, some of the additional spending would come from borrowing described by French President, Emmanuel Macron as "a real change in philosophy…that's what the European Union and the single market needed to remain coherent" and for the euro zone to remain united.[12]

This set the stage for the European Commission, on 27 May 2020, to set out its proposals for a European recovery package, presented by Commission President to the European Parliament. The package involves a combination of an enhanced MFF for 2021-27 and a new recovery instrument called Next Generation EU funded by temporarily lifting the ceiling on Own Resources to allow the Commission to use its strong credit rating to borrow money on the financial markets. Together with three safety nets of loans of €540 billion already agreed by the European Parliament and Council, the Commission President claimed that the EU recovery effort would total some €2.4 trillion.

2.2 European Recovery Package

The European Recovery Package was presented under three pillars focusing on: (i) support for Member States in recovering from the crisis; (ii) 'kick-starting' the economy and helping private investment; and (iii) 'learning the lessons' from the crisis with additional crisis-related measures and funds. In funding terms, the Commission proposal involves:

- increased investment under the MFF 2021-27, with additional commitments of €12.673 billion compared to the MFF proposed in December 2019 under the Finnish Presidency Negotiating Box;

- a European Recovery Instrument (Next Generation EU), comprising €750 billion which is not part of the MFF. This is expected to be raised through exceptional borrowing on financial markets, for the Commission to distribute through grants and loans. The main element is the New Recovery and Resilience Facility, but it will also be channelled into Cohesion Policy (through REACT-EU), top-up the Just Transition Mechanism and

provision guarantees under a revision of the current EFSI (Solvency Support Instrument), and InvestEU; and

- resources via the European Stability Mechanism, European Investment Bank and SURE, with €540 billion outside the EU budget.

The instruments involve a mix of new measures and additional funding for existing programmes (see Table 1) and serve three sets of objectives. First, the design of the package is intended to promote a recovery that promotes EU economic resilience and strategic economic autonomy, and also one that contributes to the objectives of the Green Deal, including a 'fair and just transition'. Second, the new investment proposed under the Recovery and Resilience Instrument is to be accompanied by reforms and implemented in line with the priorities presented in the European Semester of economic policy coordination. Third, as in its previous proposals, the Commission emphasises that funding is conditional on rule of law.

As part of the budgetary proposals, the Commission indicated the possibility of new Own Resources, originally proposed in May 2018, that could be used to finance the repayment of the market finance (and interest) raised under Next Generation EU. These include resources based on the Emissions Trading System, a digital tax on major international companies, a carbon border adjustment mechanism, and on companies benefiting significantly from the Single Market. The Commission also proposed a more gradual phasing out of rebates than initially proposed in May 2018.

Table 1: Overview of proposed European Recovery Programme instruments

Pillars / Programmes	Instruments	New budget items[1]	Governance
Pillar 1: Supporting Member States to recover – supporting investments and reforms, supporting a just transition			
Recovery & Resilience Facility	Grants & loans implemented via national plans in line with European Semester, and green & digital transitions	€560 bn: €310 bn in grants, €250 bn in loans	Embedded in the European Semester, coordinated by DG ECFIN, based on national recovery & resilience plans
REACT-EU	Structural Funds grants (up to 100%) in eligible regions	€50 bn (€55bn) for 2020-22	ERDF, CF and ESF programmes
Reinforced rural development programmes	Grants for rural area recovery Farm payments & rural area grants Fisheries support	€15 bn (€90bn) EAFRD €4 bn EAGF €5 bn EAFRD €500 mill EMFF	National CAP strategic programmes EAFRD programmes EMFF programmes
Reinforced Just Transition Mechanism	Support for JTF projects (skills, SMEs, diversification) in eligible regions	€30 bn (€40 bn)	Territorial just transition plans (consistent with national energy & climate plans)
Pillar 2 - Kick-starting the economy and helping private investment - supporting key sectors and technologies, investing in key value chains, solvency support for viable companies			
Solvency Support Instrument	Support for companies with solvency difficulties	€26 bn (€31 bn)[2]	Managed through EFSI via EIB and national promotional banks, financial intermediaries, SPVs
Strategic Investment Facility	Project guarantees for Strategic European Investments	€15 bn	Managed through InvestEU Fund via EIB and other implementing partners
Strengthened InvestEU Programme	Project guarantees for policy windows (infra., SMEs, R&I, skills etc)	€15.3 bn (€16.6 bn)[3]	Managed through InvestEU Fund via EIB and other implementing partners
Pillar 3 – Learning the lessons from the crisis – supporting key programmes for future crises, supporting global partners			
New Heath Programme EU4Health	Grants & procurements for health supplies & systems	€7.7 bn (€9.4 bn)	European Commission (DG SANTE) & executive agencies
Reinforced rescEU	Grants & procurements for capacity building	€2.0 bn (€3.1 bn)	European Commission (DG ECHO)
Reinforced programmes for research, innovation & external action	Horizon Europe Neighbourhood, Development and International Cooperation Humanitarian Aid	€13.5 bn (€94.4 bn) €10.5 bn (€86 bn) €5 bn (€14.8 bn)	

2.3 Implications of the ERP for Cohesion Policy

As noted above, the Commission recognised early on that the crisis would have very uneven sectoral and regional impacts. Policy responses would need to take account of differing development needs and challenges, and it was acknowledged that Cohesion Policy would be an important delivery vehicle for investment.

The package has both short and medium-term budgetary implications for Cohesion Policy (see Table 2). Under the amended MFF proposal there is a four percent reduction in the Cohesion and values heading compared to the original proposal. However, under Next Generation EU, there is a €50 billion allocation to REACT-EU, and provision for €560 billion to the Recovery and Resilience Facility. Under the 'People, Social Cohesion and Values' sub-heading, there is a four percent reduction in the allocation for ESF+, but a big unemployment mitigation instrument in the form of SURE outside the budget (€100 billion).

Changes to the **Cohesion Policy 2021-27 Regulations** aim to introduce lessons learnt from the crisis:

- build in flexibility to react immediately to new crises and emergencies in the future;
- more flexibility to make transfer between CP funds and to other EU instruments;
- a greater emphasis on job creation through SME support, culture and tourism, the health sector and online education and training; and
- a midterm review of €10 billion in 2024 to reallocate national envelopes (cf. to €4 billion previously), under the MFF regulation.

The proposed amendments to the CPR envisage greater flexibility for financial transfers and reactivity through an emergency response mechanism. The ERDF and CF Regulation amends the scope and specific objectives of the ERDF and incorporates the emergency mechanism. The ESF+ regulatory changes increase thematic concentration for youth employment and child poverty, remove the health strand and incorporate the emergency mechanism.

Box 1: Amendments to Cohesion Policy Regulations, 2021-2027

Common Provisions Regulation 2021-27[13]

- Increased flexibility for transferring up to five percent of Cohesion Policy resources to any instrument under direct or indirect management, and additional transfers of up to five percent between the ERDF, the ESF+ or the Cohesion Fund (Art. 21).
- Establishment of an emergency mechanism to respond to unusual or exceptional circumstances (Art. 15a). When a Member State is faced with an unusual event with a major financial or economic impact, the Commission may approve temporary flexibility measures including increased interim payments (by ten percentage points above the co-financing rate), allowing completed projects to be eligible for support, extending the deadlines for submission of documents and data by three months.

ERDF and CF Regulation 2021-2027[14]

- Extension of the scope and specific objectives to actions that stimulate job creation and competitiveness of SMEs, online education and training, health care infrastructure and supplies, and an enhanced role for culture and tourism through a specific objective (Art.2, Art. 4).
- The emergency mechanism extends the scope of eligible support under the ERDF to respond to exceptional or unusual circumstances on a temporary basis, particularly to finance working capital for SMEs, and to reduce thematic concentration requirements including minimum allocations for SUD (Art.11a).

ESF+ Regulation 2021-2027[15]

- Increased thematic concentration of the ESF+ of at least 15 percent (up from ten percent) for youth employment for those Member States with youth unemployment rate above the EU average, and establishing a minimum of five percent of ESF+ resources to address child poverty (Art.7).
- Removal of the health strand under the ESF+ as it will be covered by a reinforced, stand-alone EU Health Programme, with provisions for synergies and complementarity between the ESF+ and EU Health Programme (Art.2)
- The emergency mechanism in response to exceptional and unusual circumstances would allow the temporary possibility to extend the scope for the ESF+, such as support for short-time work schemes and easing thematic concentration requirements (Art.37)

Source: COM(2020) 450 final, COM(2020) 452 final, COM(2020) 447 final.

Table 2: MFF and Next Generation EU commitments for Cohesion

MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027 (IN COMMITMENTS)									
2018 Prices	Original proposal for 2021-2027	FI NegoBox	MFF 2.0	Next GenEU	TOTAL	MFF 2.0 % charge vs. original COM	MFF2.0 and NextGenEU % change vs. original COM	MFF 2.0 % change vs FI NegoBox	MFF 2.0 and NextGenEU % change vs. FI NegoBox
Cohesion and Values	391.974	374.056	374.460	610.000	984.460	-4%	151%	0%	163%
Regional Development and Cohesion	242.209	237.053	237.745	50.000	287.745	-2%	19%	0%	21%
European Regional Development Fund	200.622	197.181	196.892	-	196.892	-2%	-2%	0%	0%
Cohesion Fund	41.374	39.700	40.682	-	40.682	-2%	-2%	2%	2%
Of which contribution to the Connecting Europe Facility - Transport	*10.000*	*10.000*	*10.000*	-	*10.000*	*0%*	*0%*	*0%*	*0%*
REACT EU	-	-	-	50.000	50.000	-	-	-	-
Support to the Turkish-Cypriot community	213	172	171	-	171	-20%	-20%	-1%	-1%
Recovery and Resilience*	22.281	19.262	18.247	560.000	578.247	-18%	2495%	-5%	2902%
Recovery and Resilience Facility (incl Technical Support Instrument)			*767*	560.000	560.767	-	-	-	-
Reform Support Programme (incl Reform Delivery Tool and Convergence Facility) Council BICC & CRI & TSI	22.181	19.181							
Protection of the Euro against counterfeiting	7	6	5	-	5				
Financing costs Next Generation EU			17.400		17.400				
Other	93	75	75	-	75	-	-	-	-
Investing in people, Social Cohesion and Values	123.466	114.505	116.367	-	116.367	-6%	-6%	2%	2%
European Social Fund +	89.688	87.300	86.284	-	86.284	-4%	-4%	-1%	-1%
Of which health, employment and social innovation	1.042	1.042	_	-	-	-100%	-100%	-100%	-100%
Erasmus+	26.368	21.237	24.600	-	24.600	-7%	-7%	16%	16%
European Solidarity Corps	1.113	896	895	-	895	-20%	-20%	0	0
Creative Europe	1.642	1.332	1.520	-	1.520	-7%	-7%	14%	14%
Justice Rights and Values	841	678	677	-	677	-20%	-20%	0%	0%
Other	1.185	954	953	-	953	-20%	-20%	0%	0%
Decentralised Agencies	2.629	2.118	1.439	-	1.439	-45%	-45%	-32%	-32%
Margin	4.018	3.236	2.101	-	2.101	-48%	-48%	-35%	-35%

Immediate funding needs are addressed through a Cohesion Policy 'top-up' under the proposed **Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU).** This is intended to allow resources "to be rapidly injected in the real economy, targeting the sectors and geographical areas most in need."[16] Additional funding of €55 billion of additional funding would allow extension of the crisis 'response and repair' measures delivered through the Coronavirus Response Investment Initiative (CRII) and Coronavirus Response Investment Initiative Plus (CRII+). The funding would be spent through current Investment in Growth and Jobs programmes over the period 2020-22, extending the current commitment period by two years.

REACT-EU funding is intended to support job maintenance, job creation and youth employment measures, support for health care systems, and provision of working capital and investment support for SMEs. It can also support investment in the European Green Deal and digital transition. The allocations to Member States are not intended to be broken down by category of region, but Member States "are expected to take into account the different regional needs and development levels so that focus is maintained on less developed regions, in line with the objectives of economic, social and territorial cohesion".[17] The funding would be used for investment under a new Thematic Objective 'Fostering crisis repair in the context of the COVID-19 pandemic and preparing a green, digital and resilient recovery of the economy', with Member States having the flexibility to determine the division between ERDF and ESF, and to transfer some of the additional resources to the Fund for European Aid to the Most Deprived (FEAD) also. Importantly, the Commission proposes to pay part of the 2020 allocation as pre-financing immediately, and EU co-financing up to 100 percent may be applied to the additional REACT-EU resources.

For 2021-27, additional resources are proposed through the **Recovery and Resilience Facility (RRF),** which has the aim of offering "large scale financial support for public investments and reforms that make Member States economies more resilient, and better prepared for the future."[18] The key feature of the RRF is that it seeks to combine both investment <u>and</u> structural reforms, and it supersedes (building on and replacing) the Commission's proposal from May 2018 establishing a Reform Support Programme.

The RRF has a broad scope with a remit to:

- provide support in areas such as social, employment, skills, education, research and innovation, health issues, the business environment, public administration and the financial sector;
- focus on the challenges and investment needs related to the green and digital transitions, to promote sustainable recovery e.g. green and digital technologies, capacities and processes aimed at assisting clean energy transition, boosting energy efficiency;

- support EU strategic economic autonomy and resilience by diversifying key supply chains;
- provide support through both grants and long-term loans (in the latter case, requiring additional reforms and investment); and
- have coherent programming with priorities set out in national recovery and resilience plans, and with pipelines of relevant projects in line with the priorities presented in the European Semester and Country-Specific Recommendations for the Member State concerned.

The implications for Cohesion Policy are unclear. The Commissioner for Cohesion and Reforms, Elisa Ferreira, has stated that "we see the DNA of cohesion in the Recovery and Resilience Facility"; she also has advocated Cohesion Policy ministers "speaking up for spatial balance in the recovery and ensuring that the RRF and REACT-EU work for the least developed regions and are allocated accordingly".[19]

However, in the text of the RRF regulation, the emphasis of the RRF is on cohesion at EU level, assisting Member States to recover quicker from the crisis and improve their resilience. This is further articulated in the draft regulation as supporting policy areas promoting "the Union's economic, social and territorial cohesion by improving the resilience and adjustment capacity of the Member States, mitigating the social and economic impact of the crisis...". The RRF is also meant to be "complementary and ensure synergies with other Union programmes, notably the projects financed by the structural and cohesion funds".

Thus, there is no explicit obligation or requirement for Cohesion Policy objectives to be taken into account, for subnational authorities to be involved, or for minimum funding to be allocated to the more disadvantaged Member States. Indeed, under Article 6 of the RRF regulation "Resources allocated to Member States under shared management may, at their request, be transferred to the Facility".

2.4 Negotiating the package

The Commission has proposed a tight timetable for negotiation and implementation of the recovery package (see Table 3), anticipating political agreement on the MFF in the Council by the summer, and adoption by Council and Parliament and Member State ratification by the end of the year. For Cohesion Policy, there is also a 'backlog' of negotiations on the legislative package which stopped following the COVID-19 outbreak, and the suspension of negotiations with the Council by the European Parliament REFI Committee in early March 2020 (although informal exchanges have continued).[20]

A first discussion of the Cohesion Policy elements was held on 15 June under the Working Party on Structural Measures, chaired by the Croatian EU Presidency focusing on the balance

between crisis-repair measures and long-term cohesion objectives, and the balance to be struck under REACT-EU between the distribution of funds at national level with ensuring targeted support to the least developed regions and most affected sectors.[21] In addition to emphasising the need for swift agreement to allow rapid reaction to the crisis,[22] key issues highlighted in the discussion included:[23]

- stronger support for the health sector, and ensuring that the sectors most negatively affected (e.g. tourism and culture) could exploit their economic potential;
- the potential for increasing the flexibility of transfers between European Structural and Investment Funds "to enhance preparedness for emergencies and to further promote job creation in small and medium-sized enterprises";
- the need to reflect on the "possibility of including rapid response measures, which could be triggered in exceptional and unusual circumstances, in the framework of Cohesion Policy; and
- reinforcement of Cohesion Policy tools both to enable regions and localities to manage the current situation and underpin "a swift and sustainable recovery" of their economies.

Building on COREPER meetings in the first half of June 2020, the first political discussion of the Recovery plan in the European Council was held on 19 June 2020 (discussed further below). Although officials noted that there was a broad measure of agreement on the principles and general approach of the recovery package, it was also evident that there were important differences among Member States on key issues. As the Council President, Charles Michel noted after the meeting:

> "It was the occasion to observe that on different points there is an emerging consensus, which is very positive. But at the same time, we don't underestimate the difficulties. And on different topics we observe that it is necessary to continue to discuss."[24]

The Commission President also saw the Council discussion positively, especially the desire to reach agreement rapidly, notwithstanding some key differences among Member States:[25]

> "The first discussion was in my view very positive. Leaders unanimously agreed that the severity of this crisis justifies an ambitious common response.…many leaders stressed that we must do everything in our power to reach an agreement soon in the European Council before the summer break. … Of course, the discussions also showed differences of opinion on various issues, for example on the overall size of Next Generation EU, on the balance between grants and loans, on the allocation key, and on own new resources and rebates."

The Council President has proposed intensive discussions bilaterally with Member States with a view to seeking agreement at a European Council meeting in the first half of July 2020, although it is recognised that a second Council meeting may be needed to secure consensus (see Table 3).

Under Cohesion Policy, the German EU Presidency is seeking to get a Council mandate on the Cohesion Package Update of 28 May (including the JTF) before the summer break and conclude negotiations with the European Parliament as soon as possible. REACT-EU is regarded as a 'priority file' in order to allow the 2020 allocation to be spent in this calendar year.[26]

Table 3: Indicative timetable for the European Recovery Package

May 2020	**Commission proposal for the revised Multiannual Financial Framework 2014-2020 & 2021-2027 and Own Resources Decision + sectoral legislation**
July 2020	European Council: Political agreement on Multiannual Financial Framework 2014-2020 & 2021-2027 and Own Resources Decision
Summer 2020	European Parliament's consultation on Own Resources Decision
Early Autumn 2020	Adoption of the revised Multiannual Financial Framework 2014-2020 + corresponding sectoral legislation
October 2020	European Council
December 2020	Adoption of the revised Multiannual Financial Framework 2021-2027 (European Parliament's consent) Adoption of the Own Resources Decision (Ratification by all Member States in line with their constitutional requirements)
January 2021	Multiannual Financial Framework 2021-2027 implementation starts

Source: European Commission

3 MEMBER STATE REACTIONS TO THE COMMISSION PROPOSALS

3.1 Key issues

The European Council, the preceding COREPER and (for Cohesion Policy) Working Party on Structural Measures meetings and other discussions, provide a clear indication of different national positions on the European Recovery Package. Five key issues are the overall size of the package, the relative importance of grants, loans and guarantees, the methods for allocating funding, the rule of law conditionality, and the implications for Own Resources.

(i) **Size of the package.** There appears to be significant support among many Member States for the volume of resources proposed by the Commission. Indeed, for some southern EU countries, such as Italy and Spain, the proposal is regarded as the 'minimum acceptable'. However, the smaller net payer countries (Austria, Denmark, Finland, Netherlands, Sweden) have expressed concern about the implications for their net balances and are in favour of a smaller package.

(ii) **Grants, loans and guarantees.** There are different national views on the proportion of support provided through grants, loans and guarantees. Several of the small net payer countries (Austria, Denmark, Finland, Netherlands, Sweden) are critical of the use of borrowing to finance grants, advocating the principle of 'loans for loans' i.e. that funds borrowed by the EU should be allocated to Member States as preferential loans, with individual countries repaying the funding lent to them. Reservations on the pooling of debt have also been expressed by some Central and Eastern European Member States, notably the Czech Republic, Hungary, Poland and Slovakia, also Cyprus and Malta, who would prefer a package predominantly or wholly made of grants. Most other countries, including Bulgaria, France, Germany, Ireland, Italy, Romania and Slovenia, are in favour of the Commission proposals of a mix of loans and grants.

(iii) **Allocation methods.** The methodologies for assessing needs and allocating funding for the RRF and REACT-EU have prompted many questions and differences among Member States. The concerns expressed include the rationale for the allocation method (for the RRF), the indicators and their weighting, the lack of a territorial dimension to take account of regional specificities (regional and also sectoral concentration), and the need for minimum allocations (not only ceilings). There is also no clear consensus on links of the RRF with the European Semester, and concern about absorption capacity (for REACT-EU).

(iv) **Rule of law.** A continuing source of division is the Commission proposals for the disbursement of EU funding to be conditional on respect for the rule of law, with the scope for "generalised deficiencies" (based on a qualitative assessment by the Commission) to lead to measures such as the suspension of payments and of commitments, a reduction of funding under existing commitments, and a prohibition to conclude new commitments with recipients.[27] With the first annual Rule of Law Report to be presented by the Commission in autumn 2020, the issue will come to a head under the German Presidency. Along with several other Member States, Germany has repeatedly emphasised the importance of the rule of law conditionality[28] and recently reiterated:[29] "for us, rule of law in the MFF is very important… We think this is a very strong signal and we would very much like to see this part of the MFF." However, both Poland and Hungary have been highly critical of the conditionality, referring to it as a "power grab" by the Commission and "blackmail".[30] Despite proposed changes in the governance and scope of the proposal, agreement could not be reached at the February 2020 European Council, and divisions have continued in the debate over the revised MFF.

(v) **Own Resources.** Member States are divided on the size and duration of the temporary increase(s) of the Own Resources ceiling as proposed by the Commission. While a number of countries would accept a temporary increase in the ceiling, others are concerned that there is a risk of it becoming permanent. Any of the new Own Resources mooted by the Commission would also require extensive negotiation.

Additional issues which are likely to become more prominent in the debate: are the relationship between investment and reforms, and how reform conditionality is exercised through the European Semester; and the role of EU Competition Policy, especially the control of State aid.

Turning now to the reactions of Member States, the following sections summarise the public positions of the EU EoRPA countries.

3.2 Support for the Commission proposals

As one of the signatories to the Franco-German initiative in May, **Germany** has voiced strong support for the Commission proposals. With a leitmotif of 'cohesion and solidarity' for its forthcoming EU Presidency,[31] the Federal Chancellor, Angela Merkel affirmed following the European Council on 19 June 202032 that "Germany is satisfied with the basic architecture of the reconstruction fund". However, it was acknowledged that "the bridges we still have to build are big…[and]… a whole series of questions is yet to be answered". While giving support to the linkage of the recovery support to the European Semester, and the focus of the

package on promoting the digital and climate transitions, particular concerns for Germany include:

- the reference period for assessing the labour market impact of the pandemic on individual Member States (2015-19) for allocating the RRF, and the scope for a wider set of indicators for quantifying the economic damage;
- the 2021-24 duration of the RRF, which is "very long";
- repayment of EU borrowing in the 2021-27 period rather than thereafter in order to "greatly increase credibility" of the EU;
- a review of the scope for simplification of approval procedures for disbursing funding; and
- the need to discuss EU Competition law, notably whether "competition law enables global champions to be formed in Europe, as well as whether our state aid law and bureaucracy are appropriate to react at the speed that is necessary".

The German response has also recognised the role of Cohesion Policy in responding to the sectoral and territorial impacts of the pandemic. Federal Economics Minister Peter Altmeier commented that:[33]

> "The EU Structural Funds are an important building block in the economic recovery from the crisis and a sign of European solidarity. They allow a rapid deployment of funds in the regions and sectors most affected by the crisis. I therefore welcome the EU Commission's proposal to use the recovery instrument also for the EU Structural Funds. This will make it possible to support small and medium-sized enterprises, strengthen the health sector and promote employees and the self-employed. It is important for me to leave the crisis mode as quickly as possible and to channel long-term investments from the EU Structural Funds into important future issues such as the implementation of the Green Deal or the digital agenda."

France has likewise responded positively. On the announcement of the Commission proposals, French President Emanuel Macron called it an "essential day for Europe…the Franco-German agreement has enabled this step forward. We must move quickly and adopt an ambitious agreement with all our European partners." Government ministers have also repeatedly cited the French-German proposal as the basis for the Commission package, emphasising the need for speedy agreement:

> They [the Commission's proposals] are living up to the stakes and demonstrate an undeniable political ambition. (…) All the components of the Franco-German proposal are included."[34]

> France is putting all its efforts in the service of the Franco-German objective to obtain an agreement on the recovery plan needed by the French and the Europeans."[35]

> "The Commission's proposal is a historic one. (…) The sooner the European Recovery Plan becomes available, the better."[36]

Several southern EU Member States also welcomed the Commission proposals. For **Italy,** Prime Minister Giuseppe Conte was one of the first national leaders to make approving comment after the launch of the European recovery plan, describing it as an "excellent signal from Brussels":[37]

> "we were described as visionaries because we believed in it from the beginning. 500 billion in grants and 250 billion in loans are an adequate figure. Now let's speed up the negotiation and free up the resources soon."

Italy has continued to press for rapid decision-making on the package following the European Council on 19 June 2020, detecting "an atmosphere, albeit in the variety of positions, which is convergent" and believing that "the next council will be decisive."[38] Recognising that other Member States are pressing for a smaller package, the Italian PM also expressed opposition to any reduction in the resources in the Commission proposals, which would be "unacceptable" on the basis that the package :[39]

> "is fair and well balanced. It would be a serious mistake to go below the financial resources already indicated…. The European Commission and the ECB have not missed the appointment with History. Now it is the turn of the European Council to be up to the challenge and to give a strong political signal."

Further, speaking to the Italian Parliament, and recalling that Italy has played a lead role in mobilising an EU economic response to the crisis, PM Conte has stressed the national position on the composition of the package having a predominance of grants and that the principle of "*extraordinary and long-term financing through European common debt remains firm*".[40]

Lastly, PM Conte has directly addressed a perceived concern of some Member States with the capacity of government authorities to spend the money:[41]

> "On the domestic front, Italy has already started a national consultation with all the political, productive and social forces to draw up an investment and reform plan that allows us not to restore the pre-Covid 19 situation but to improve the level of productivity and economic growth".

PM Conte has also prepared the ground for reforms, emphasising that they are not an 'anachronistic' conditionality but "crucial reforms to better react to the crisis, to put ourselves on the path of growth and therefore to re-link the debt reduction path as soon as possible."[42]

As in Italy, Prime Minister of **Portugal**, António Costa, gave an immediately positive reception to the Commission proposals highlighting the scale of the EU response and its contribution to confidence of EU citizens in European integration:[43]

> "I welcome the ambitious proposal of the European Commission that rises to the challenge that Europe is facing. The reinforcement of the MFF by €750 bn… allows a robust response to the health, economic and social crisis….[and]… ensures that the recovery effort is consistent with Europe's strategic priorities in combating climate change, in the digital transition and in building the strategic autonomy of our productive capacity. ….I also stress the importance of the proposed strengthening of the Cohesion Policy and Rural Development. We will analyse the distribution key between the different Member States, in order to guarantee economic and social convergence…. This proposal opens the door to reuniting the European project with the Europeans."

In subsequent statements, the Prime Minister and the Minister of Planning Nelson da Souza have highlighted four key points. First, the Portuguese Government takes a positive view of the construction of the package, which is considered to strike a "good balance" between grants and loans, and the important conditionality that funds need to be used to achieve the Union's strategic and common objectives, such as accelerating the digital and climate transition, and strengthening Europe's strategic autonomy. The proposals are also considered as "particularly intelligent from the point of view of the fund management model", with each country developing a national recovery plan, coordinated throughout the European Semester.[44]

Second, politicians have stressed the need for speedy agreement at the next European Council meeting and for the funding to become made available. PM Costa stated that:[45] "To lose time is to weaken Europe, it is to jeopardise the income of families, jobs and businesses. There is no time to take risks, there is time to decide and this is the time for commitment". In particular, Da Souza considered it "fundamental" for the REACT-EU support to be agreed and operational by the autumn.[46]

Third, PM Costa hailed the contribution of the "unique opportunity" of the extraordinary EU resources to help build an "ambitious programme of economic and social recovery in Portugal"[47]. He urged the Portuguese Parliament to participate in the construction of "a major national project" to take full advantage of the funds.[48] De Souza also focused on the need to reflect on how best the funding could be used: "from January 2021, we will be able to define rules and present support, but long before that, we have to discuss in our society what we want to be in the future and what our priorities are", so "it is very important to reach consensus" in society.[49]

Lastly, the Portuguese PM emphasised the favourable opportunities provided by long-term reimbursement of the EU debt incurred, with "a grace period until 2028 and a maturity of 30 years from 2028, as well as the scope for the EU, more so than individual Member States, to

impose taxes on major digital companies or financial transactions". [50] Following the European Council, he went further: "Portugal hopes that there will be the courage to come up with new own resources to avoid unfair competition that many of these activities constitute".[51]

Among other southern European countries, **Spain** has indicated support for the Commission proposals, and its focus on the sectors and geographic areas most affected by the COVID-19 pandemic.[52] Prime Minister Pedro Sánchez has asked for a quick agreement to be in force on 1 January 2021 because, "the longer we wait, the deeper the recession will be." He also pointed out that the package of measures "presents an opportunity to transform and reform European economies, accelerating their digitization and reinforcing the Green economy." Like several other EU leaders, he emphasised that "what is at stake here is the future of the European project. Without an agreement we will all lose." Other positions articulated by the State Secretary for the EU, Juan González-Barba are**:**[53]

- concentration of resources on a 'just and inclusive recovery' - the social dimension is regarded as having a special role in recovery efforts, especially with regard to the training of the economically active and young people in particular;
- support for the establishment of own resources to support national repayments under the recovery plan as long as they are genuine EU own resources linked to the MFF;
- the May 2018 Commission proposal for the MFF of 1.14 percent should provide the starting point for negotiations, which should ensure sufficient funding for the CAP especially for Pillar 1; and
- on Cohesion Policy, support under the recovery instrument cannot be traded off for reduced allocations of Structural Funds under Cohesion policy.

The Spanish Government is reported as asking for the implementation period of the recovery funds to last four rather than two years. Further, it has voiced a more broadly felt concern – that the funding should have minimal conditionality, and that national reform plans should not require unanimous approval by the Council.[54]

Greece also has an overall positive view of the recovery plan. PM Kyriakos Mitsotakis said at the European Council:[55]

> "Greece fully supports the Commission's proposal, it is a very good starting point, we cannot go below the level of this proposal…Speaking as a country which in 2011 experienced a 9.1% recession those kinds of economic situations are particularly painful and lead to social upheaval and rise of populism. We must all know very well what lies ahead if our reaction does not have the appropriate size or the speed required".

The PM was reported as insisting on maintaining the level of the total sum and the proportion of grants to loans, as well as the allocation clause and the important role of Cohesion Policy.

Preliminary planning has already considered the practical implementation of the Recovery Fund resources for Greece based around six axes: regional development; digital transformation; green growth; improving infrastructure; employment and social cohesion; and smart entrepreneurship mainly related to innovation in production.[56] As in Portugal, the Greek government has emphasised "the potential to turn the current crisis into an opportunity" with respect to investment and green growth; in this context, the reinforced JTF support is acknowledged as supporting the complete transition from lignite mining in Greece by 2023.[57]

Together with **Cyprus** and **Malta**, which similarly support the Commission proposals, France, Greece, Italy, Portugal and Spain, jointly met in the MED7 configuration and collectively reiterated national government positions outlined above, highlighting the specific needs to the tourism and – more broadly – a need to "rethink" the EU including a "modernisation of competition policy" (see Box 2).[58]

Box 2: Joint Statement of the European Affairs Ministers of the MED7 Countries (selected points)

Coming out of this crisis together requires an **ambitious European recovery plan,** based on real solidarity. We welcome the Commission's proposal and we call on all EU partners to work towards a quick and ambitious agreement on this basis. In these discussions, we will jointly defend a volume of grants commensurate with the severe social and economic shock and with the need to avoid distortions in the single market.

The recovery plan must provide support as soon as possible to **the sectors, regions and Member States most affected by the crisis, which should be reflected in the allocation key**. It should be financed through borrowing on behalf of the EU and repaid over the long-term through the EU budget, including possibly through a comprehensive reform of the revenue side. The recovery should be consistent with our European priorities such as the European Green Deal, the digital transformation and the social agenda.

b) In the current phase, we believe that the **coordination of national exit strategies is key** to succeed in our fight against the pandemic while restarting our economies, returning to the full functioning of the single market, gradually and safely restoring freedom of movement for our citizens, in line with the principles of proportionality and non-discrimination, and respecting our fundamental shared values. We will also pay **special attention to the tourism industry**, which requires a European approach to enable safe tourism flows.

We will need to draw all lessons from this crisis to rethink our Union. **It is clear that we need to build up European sovereignty**, especially in the health sector, so that we can better respond to health crises and reduce EU dependency on foreign suppliers. We will also need to enhance EU autonomy in strategic sectors to ensure European independence and strengthen our industrial base, including SMEs. This also implies **a modernisation of European competition policy** in support of a strong, efficient and competitive single market, while promoting convergence amongst Member States.

Source: https://bit.ly/38mF7ba

A broad welcome for the Commission package has also come from some Central and Eastern European countries - **Bulgaria,**[59] **Croatia, Latvia**[60]**, Lithuania, Romania**[61] and **Slovenia**[62]. While supporting the main principles of the proposals, each Member State has specific issues, including:

- recognition of the opportunities for the investment package for national recovery efforts (Bulgaria, Romania, Slovenia) and from new EU priorities and forms of financing (Lithuania);
- linkage of funding to the implementation of structural reforms for sustainable and long-term growth (Lithuania);
- greater emphasis on Cohesion Policy and agricultural support (Lithuania, Romania, Slovenia)
- the need to use the latest statistical data for determining allocations; and
- the importance of quick progress in reaching agreement and launching the new instruments.

3.3 Support for the Commission proposals – with reservations

The Visegrad 4 (Czech Republic, Hungary, Poland, Slovakia) have formulated collective responses to the Commission proposals. They support "the creation of extraordinary instruments and measures" but consider they should be temporary and that the EU response should be based on existing policies "both in the MFF and in the Next Generation EU as they offer proven and ready-to-use delivery mechanisms".[63] Further, they have expressed concern over the proposal for long-term borrowing and that "the distribution of funds should not disadvantage countries that have managed the pandemic well."[64] Specific concerns are further elaborated in 'common lines' of the four Member States (see Box 3Box 3).

Box 3: V4 Common Lines on the MFF / Next Generation EU (synthesis of points)

The scope of measures to create the conditions for sustainable growth should be broad enough and the process should be simple.

The allocation criteria for the MFF and the Next Generation EU should be fair to lower income countries, as the level of prosperity reflects the capacity of Member States to finance the recovery.

The Recovery and Resilience Facility should be more flexible and tailor-made to country specific needs. The impact of investment and structural reforms under the Facility should be thoroughly prepared; therefore, longer non-competitive periods, i.e. with guaranteed national envelopes, are needed.

Regarding allocation criteria: for the RRF, unemployment rates for 2015-19 should not be the only key indicator; REACT-EU criteria should reflect the relative prosperity of Member States

expressed in GNI/per capita and also the economic impact of the crisis on the Member States.

Flexibilities in implementation conditions in the Cohesion Policy introduced in the packages this spring during the crisis (CRII/CRII+) should be maintained not only for the REACT-EU implementation but also for the regular Cohesion Policy allocation for 2021-2027 period.

For Next Generation EU funds, beyond the Green Deal and digitalization, the development of key missing transport and energy infrastructure, and industry should also be taken as a priority.

The next MFF should be based on a fair system of own resources. Any new own resource that puts additional burden on the less developed Member States should be avoided. All rebates should be abolished or phased out gradually.

Source: https://www.vlada.cz/assets/media-centrum/aktualne/V4-common-lines.pdf

Like its Visegrad partners, **Poland** has a broadly positive opinion of the overall MFF and the recovery package but with some reservations, especially regarding the need for more flexibility for Cohesion Policy. Minister for Funds and Regional Policy, Małgorzata Jarosińska-Jedynak, has said:

> "The European Commission announced the presentation of the new EU budget in May. A very good political sign is the position of the EU Parliament, which clearly stated that it would not agree to cuts in Cohesion Policy. Additional resources for recovery should be included in the EU budget. Poland has consistently emphasised that the basic element of recovery after the pandemic should be a new, ambitious, multi-annual EU budget, maintaining a strong position of Cohesion Policy."[65]
>
> "In this difficult period, Cohesion Policy has proven again that it is an important EU investment policy that can be easily adapted to changing circumstances. It allows Member States to react quickly according to her needs. Such a reaction requires greater flexibility for Cohesion Policy both now and in the next programming period."[66]

Focusing on the recovery package itself, there are specific issues where Poland considers that further discussion is required.

- **RRF.** Poland would prefer that the Facility was under shared rather than direct management in order to give Member States more influence on how it is used.
- **REACT EU.** Rather than new programmes or priorities, Poland would prefer to use existing OPs and priorities because these are working well and are suited to tackling the challenges.
- **Timing is a key issue**. The multiplicity of instruments that have to be implemented quickly, alongside incomplete negotiations for next round of Cohesion Policy, is

creating complexity and time pressures, and presenting challenges for new funding to be available on the ground from the start of 2021.

- As noted in the V4 statement, **flexibility for Cohesion Policy** should be increased further. Poland has made specific proposals for technical changes to the regulations to provide more flexibility, only some of which have been included in the Commission proposals.[67]

- Poland is concerned about **mandatory transfers from Cohesion Policy to the Just Transition Fund,** which should be optional for Member States. More generally, Poland advocates a broader scope for the JTF reflecting the particular challenges in Poland moving away from its heavy reliance on coal.

Some of these positions have been echoed by other Visegrad governments. On the issue of debt, the Prime Minister of the **Czech Republic,** Andrej Babiš said "We have restrained public finances for the last six years and have not created debts. And the Commission now wants us to guarantee loans for countries that have been irresponsible".[68] Speaking at the European Council, the PM also said that:[69] "the calculation of national shares based on unemployment rates over the past five years is incorrect and has nothing to do with the real impact of the coronavirus crisis, the recovery plan must be limited to what is absolutely necessary and must be well targeted; and flexibility of the MFF and modification of some chapters of the budget via adjustment of traditional policies is preferred."

In the same vein the PM of **Hungary**, Viktor Orbán said "When it comes to taking loans, there is a red light turning on in every head."[70] While the Hungarian Government has taken a positive approach to the Commissions, in principle, it considers that significant changes are needed to make it just, workable and effective.[71] The proposed distribution of the funds among Member States creates problems: reliance on pre-pandemic indicators undermines the ultimate goal of the package to help mitigating the effects of the COVID-19 crisis. The present allocation method does not capture the socio-economic damage from the Coronavirus and should therefore be replaced/adjusted by a formula which takes full account of the drop in Member States GDP growth rate. The proposed (population related) capping should be removed, too. More broadly, Hungary remains opposed to the proposed reductions in Cohesion Policy allocations in the MFF which is considered "unacceptable".

Slovakia shares the common lines of the Visegrad countries (see Box 3), but has been less publicly critical on the issue of debt. Slovak officials are reported as supporting alignment of EU recovery support with the implementation of structural reforms, including reforms of the health sector.[72] Further, the Prime Minister has indicated that Slovakia "should also sacrifice part of the pre-allocated allocation in the interest of fair redistribution of crisis support."[73] According to the Deputy Prime Minister, additional allocations for the country under the Recovery Plan should be focused on research and innovation, automotive, labour market flexibility, climate change and transport.[74] Slovakia is able to absorb allocation from Recovery

Plan only through implementation of bigger projects. The country does not have sufficient capacity to absorb available resources under the currently proposed conditions for thematic concentration. Other Slovak government priorities, for Cohesion Policy support, have been stated as: a co-financing rate close to the current one (85/15); continuation of the n+3 rule; and more flexibility for Member States especially in the first years of the programming period 2021-2027 and in relation to thematic concentration.[75]

Beyond the Visegrad 4, **Ireland** also belongs to the group of countries supportive of the Commission proposals in principle but with major concerns. In a report to the Irish Parliament on the European Council,[76] PM Leo Varadkar welcomed "the broad thrust of the proposals and the Government's support for an EU response that demonstrates solidarity with those regions and sectors most affected by the pandemic". However, he expressed concern at the indicators to be sued for assessing funding need, and argued for more rural development support:

> "The metric against which grants and loans should be allocated is the extent to which a country has been impacted by Covid-19, not its past economic performance or its ability to bounce back from a crisis."
>
> "Despite the increased allocation for rural development under the recovery proposal and the increased allocation for the CAP in the revised MFF, I said that what was now on the table was not acceptable to Ireland and does not yet meet the test of ensuring adequate funding into the future."

The Irish PM also noted that the package should take account of the disproportionate impact of Brexit should there not be a trade deal between the EU and UK: "Whatever the outcome of the ongoing negotiations, we will be affected more than other countries are and any recovery instruments should be designed to respond to that."

3.4 Significant concerns with the Commission proposals

More fundamental objections have come from smaller net payer countries, sometimes dubbed the 'frugal four' (Austria, Denmark, Netherlands, Sweden), and on some issues also with Finland. Immediately prior to the launch of the Commission proposals, the 'frugal four' published a non-paper advocating time-limited emergency measures in the form of:

> " a temporary, one-off Emergency Fund to support the economic recovery and the resilience of our health sectors to possible future waves. This would come on top of a modernized MFF and as a supplement to the package of 540 billion euros already agreed on by the European Council and other far-reaching and unprecedented initiatives at EU as well as national level."

Further, they strongly rejected the mutualising debt in favour of 'loans for loans': " What we cannot agree to, however, are any instruments or measures leading to debt mutualisation nor significant increases in the EU budget." Specific elements of their approach followed the logic of their position in previous MFF negotiations (see Box 4).

Box 4: Non-paper EU support for efficient and sustainable COVID-19 recovery (selected points)

Efforts to support efficient and sustainable recovery should be based on:

- A **modernized EU budget** as a point of departure.
- Financial scope for COVID-19-related expenditure can be provided through savings in the MFF by **reprioritizing** in areas that are less likely to contribute to the recovery.
- **Frontloading** / temporarily topping up COVID-19-related expenditure to help kick start the economy and speed up recovery.
- Aiming for a strong, **financially sound and sustainable budget**, with an overall level and composition of expenditure proportionate to our strategic priorities.
- **Our position on the MFF is unchanged.** We continue to request that national contributions are limited, and we recall that the rationale behind corrections remains valid.

On top of a modernized MFF, we propose to create an **Emergency Recovery Fund** based on a **'loans for loans'** approach, which is in line with fundamental principles for the EU budget and designed along the following lines:

- A thorough needs assessment that targets sectors and segments that are most hit.
- Recovery support should ensure that all Member States are better prepared for the next crisis. **A strong commitment to reforms and the fiscal framework** is essential to promote potential growth.
- Directed towards activities that contribute most to the recovery such as **research and innovation, enhanced resilience in the health sector** and ensuring a green transition that underpins the EU's ambitious **climate, growth and digital agendas.**
- Temporary, one-off nature with an explicit **sunset clause after 2 years.**
- **Not leading to any mutualisation of debt.**
- Lending on favourable terms to the benefit of the Member State in need, while limiting the risk to all Member States and providing sound incentives.
- Adherence to **Rule of Law and Fundamental Rights** and **protect spending from fraud** with a strong involvement of the European Court of Auditors, OLAF and EPPO.
- As part of the recovery effort, we need to **restore and deepen the Single Market** by having a common innovation and industrial policy, setting a joint action agenda before 2021 and by completing the Capital Markets Union.

Source: Dutch National Government website: https://bit.ly/31u07vg

The collective position was restated in a joint letter to the Financial Times.[77] This restated many of the points in the non-paper, stressing the need for a "realistic level of spending" and that the "crisis measure must not be mixed up with other challenges and priorities of the EU". The letter noted that any emergency funding should be open until the end of 2022, and should be focused on:

> "those sectors and regions hardest hit by the pandemic. There should be specific and crisis-related criteria to base decisions on. Conditions on the ground should decide where the money goes. Taking decisions now based on pre-crisis statistics simply makes no sense."

Austria has been particularly outspoken, quickly rejecting the Commission's proposals in their current form. Minister of Finance, Gernot Blümel, stated:[78]

> "The Commission's proposal, together with the European budget and the reconstruction fund, would mean that Austria would have to contribute nearly two percent of its GDP….That would be twice as much as in the past. For us, that's unacceptable."

Following the European Council, the Federal Chancellor Prime Minister Sebastian Kurz said that he recognised the positive elements of the Commission's package, that payments under the Recovery package were time-limited, and that it was not the beginning of "a permanent debt union". However, negotiation would need to focus on volume of the EU package and the relationship between grants and loans.[79]

Similar language was used to present the position of **Sweden** by Prime Minister Stefan Löfven, following the European Council meeting:[80]

> "We believe that the recovery fund should be based on loans and not on contributions from the Member States. The proposal of the European Commission would mean a 50 percent increase in the budget and this is not reasonable. An arrangement of loans provided at favourable interest rates and long repayment periods enables smart jobs, productivity and competitiveness throughout Europe".

Furthermore, the Prime Minister noted the following position on the MFF:

> "The European Commission has presented a revised draft budget and, just as before, we believe that the total volume is still too high and continued rebates are necessary for the agreement to take place. However, it is good that the budget is modernised particularly through a greater focus on climate and digitalisation, and that there is a clear link between receiving EU funds and respecting the rule of law. Sweden has fought hard for this."

In the **Netherlands,** the Dutch Government has set out its position on the European recovery package in detail in a letter to the Dutch Parliament, stating many of the points in the collective non-paper.[81] The Dutch Government recognises the importance of protecting the EU economy and internal market but is dubious of the Commission proposals for more spending which it considers to be weakly justified and with too little focus on modernisation of the EU budget (e.g. spending on innovation). The proposed size of Next Generation EU is considered to be insufficiently substantiated by the Commission and requires a thorough needs assessment that targets sectors and segments that are most hit.

The Netherlands opposes higher contributions to the EU budget, and wants to retain a substantial permanent correction. The EU fund should limited in time and financed on a loans-for-loans basis based on a clear repayment schedule. The Government remains sceptical about the proposed increase of the Own Resources ceiling, and maintains its position of an MFF based on a one percent share of EU GNI. It is sceptical about new Own Resources.

The Government is critical of the proposed increase in the Cohesion budget with the REACT-EU programme, the extension of the flexibility of the measures in the CRII+ and the increase in the second pillar of the Common Agricultural Policy (CAP) budget for rural development. It believes that the size and distribution cannot be traced back to the investment needs that arise from the crisis. The Government questions if these funds are timely enough to be used for immediate crisis recovery. In addition, no thematic concentration applies (including on innovation) to the proposed increase in the Cohesion budget.

Using similar language to Austria, Netherlands and Sweden, **Denmark** has questioned the size and orientation of the recovery plan. Minister of Finance, Nicolai Wammen, said:[82]

> "This is about equal parts solidarity and accountability. As a small and open economy, it is in Denmark's clear interest to help those countries most affected by the crisis…….we have proposed a recovery fund, which can provide favourable loans to the hardest hit. On the other hand, we are sceptical of common debt, which must be implemented in direct support to other countries. At the same time, the money should be spent where they do most. So we support growth and the green transition to a greater extent. The Commission's bid for a total MFF package has costs in the region of DKK 14 trillion….. we will have to look carefully at whether the money can be used more wisely in the EU budget and whether we can bring the bill down."

Finally, the position of **Finland** is distinct from the 'frugal four', although it shares some of the same concerns. Initial reactions to the Commission's proposals reflected the different interests of coalition parties. The Minister of Europe, Tytti Tuppurainen (Social Democratic Party) said that: "the size of the package meets our expectations, but the share of grants is higher than we had anticipated"…. however, it is good that the support is channelled (to Member States) through the MFF. It is therefore not gratuitous funding, but it is distributed according to certain

priorities."[83] By contrast, the Minister of Finance, Katri Kulmuni (Centre Party) was much more cautious:[84]

> "I do not think that the model as such will go through….it is not anyone's fault that the Coronavirus is here, but it is important that the EU, under the guise of the crisis, does not make any changes which do not have legitimacy.,,,,It has been important for Finland that the support model is loan-oriented."

Minister Kulmuni also emphasised that the responsibility of the EU Member States for their economic policies: "For us, the rules are important and that they are followed. The fact that we are now in this situation means that those rules have not been followed everywhere." [85]

On 4 June 2020, the Finnish Government forwarded its views to the Grand Committee (the Finnish Parliament's EU Committee) with its view of the Commission's proposals.[86] The key issues for Finland in relation to the MFF are the overall moderate level of the budget, funding of rural development (Pillar 2), conditionalities especially with regard to the rule of law and climate actions. As such the Commission's proposal for a recovery instrument is not deemed acceptable for Finland. The following changes are needed:[87]

- In its initial positions, Finland has noted that the support in the recovery instrument should take place through loans, although it has been willing also to consider other possible forms of support and at least a reduction in the share of grants.
- The size of the recovery instrument should be smaller and proportionate to the subsequent payment burden (and duration of the burden) of the Member States.
- The repayment period of the recovery instrument should be shorter than the proposed 30 years and the financing arrangement must comply with the principle of a balanced budget of the Treaty. The long-term constraint on budgetary sovereignty for the Member States should be kept to a minimum.
- The duration of the recovery instrument should be shorter than the four years proposed by the Commission.

Following the European Council, it was clear that the Commission's proposals were not acceptable for Finland. Prime Minister, Sanna Marin, said "Finland approaches constructively to discussions on the recovery tools. However, we cannot accept the Commission's proposals as it stands, and changes are needed in many respects".[88] Reporting on the Council to the Parliament, the PM that Finland continues to emphasise reducing the size of the recovery instrument, increasing the use of loans, shortening the repayment period, allocating funding directly to the aftermath of the crisis and supporting structural reforms and economic modernisation. Further, clear records must also be made that, if implemented, the instrument will be a one-off special arrangement.[89]

4 BUDGETARY IMPLICATIONS FOR COHESION POLICY

4.1 Background

In May 2018, the Commission published Cohesion Policy allocations by Member State along with its proposals for a new Common Provisions Regulation.[90] This was a departure from past practice which had been to publish the allocation *methodology*, but not the *outcome*. Such transparency did not, however, staunch the controversy that has always surrounded the negotiation of the Multiannual Financial Framework. As in the past, detailed amendments were proposed to the Commission's Cohesion Policy allocation methodology as part of the wider budget negotiations. This culminated in a negotiating box 'with figures' put forward by the Finnish Presidency in December 2019;[91] further adjustments were proposed by the President of the European Council Charles Michel in February 2020,[92] but consensus could not be reached.

Under the Recovery Plan for Europe outlined in Section 2.2 above, there are two related elements that affect funding for economic, social and territorial cohesion:

- changes to the Commission's 2018 proposals for the 2021-27 financial framework (MFF 2021-27);[93] these involve a *reduction* in the allocation for Cohesion Policy;
- proposals under the European Recovery Instrument ('Next Generation EU') through REACT-EU. These would:
    - add €5 billion to Cohesion Policy in 2020 (ie under MFF 2014-20); and
    - add €50 billion for 2021-2022 through externally assigned revenues.[94]

In addition, although not under Heading 2 *Cohesion and values*, but with territorial implications nonetheless, there are also changes to the allocations for the European Agricultural Fund for Rural Development (EAFRD) and the Just Transition Fund (JTF), both under Heading 3, *Natural resources and environment*. Proposed allocations to EAFRD and JTF are provided in an annex at the end of this section.

4.2 MFF 2021-27 Mark 2

4.2.1 *Changes to MFF allocations for Cohesion Policy*

As part of the Recovery Plan announced in May 2020, the Commission tabled an amended proposal for the 2021-2027 Multiannual Financial Framework.[95] This notes that the original proposal needed "to be adapted to reflect the progress made in the negotiations". It further indicates that:

To ensure adequate support to Member States and regions most in need, the Commission's revised proposals also will include a review of national cohesion allocations, taking into account then latest available statistics, with upward adjustments only up to an increased total level of EUR 10 billion (2018 prices). This will require corresponding adjustments of the MFF expenditure ceilings in the years 2025-2027.

The revised MFF proposals involve a *reduction* of funding to economic, social and territorial cohesion, compared to the Commission's 2018 proposals, but with the scale of the reduction somewhat less in 2025-27.

Table 4: MFF 2021-27 Mark 1 and 2 proposals for economic, social and territorial cohesion (€m)

	2021	2022	2023	2024	2025	2026	2027	Total
MFF 2021-27 Mk 1	45597	46091	46650	47212	47776	48348	48968	**330642**
MFF 2021-27 Mk 2	44430	44961	45491	46119	46751	47384	48045	**323181**
% change	-2.6	-2.5	-2.5	-2.3	-2.1	-2.0	-1.9	**-2.3**

Source: *EPRC calculations from information in COM(2018)322 and COM(2020)433*

4.2.2 What allocation and eligibility criteria?

The total amount for economic, social and territorial cohesion in MFF 2021-27 Mk2 - €323,181 million - is the same as in the Michel proposals tabled in February,[96] and indeed in the Finnish Presidency 'negotiating box' from December 2019.[97] However, the allocation methodology differs between the two; it is unclear whether one or other (or neither) underlies amended Commission proposals. There *are* amendments to the proposed Common Provisions Regulation (CPR)[98] in the Recovery plan package, but these are limited to increasing flexibility; they explicitly do not "imply any changes in the proposal for the next multiannual financial framework". More specifically, Article 102 of the proposed CPR which defines geographical eligibility and Annex XXII to the original CPR proposals which sets out the allocation methodology and the national allocations are unchanged.

The changes proposed to the Commission's original methodology in the Finnish Presidency negotiating box and the Michel proposals are listed in the annex to this section, but the key points to note are:

- updated GDP data suggested some **changes to eligibility** compared to the Commission proposals (see Map 1 and table below); specifically, LDR coverage would increase and MDR coverage fall;

	MFF	LDR	TR	MDR
COM proposals	2021-27	27.6	25.3	47.1
FI NegoBox and Michel proposals	2021-27	28.1	25.2	46.7

- the per capita allocation to establish the **MDR 'envelope' is cut** from €18 per head per annum to €16.7 in the Finnish negotiating box and further to €15.2 per head per annum,

also affecting Transition Regions for which the MDR per capita amount is the theoretical minimum;

- **capping as a percentage of GDP is tightened** further, and made more complex;
- **capping as a percent of 2014-20 allocation is lowered** from 108 percent to 107 percent in general;
- **for more prosperous countries, a more stringent cap applies** expressed as a proportion of 2014-20 allocation
- the **'floor' on reductions in 2021-27 is lowered** from 76 percent of 2014-20 allocations to 73 percent.

The overall thrust of both the Finnish and Michel proposals was to trim the overall budget for economic, social and territorial cohesion. In the Finnish negotiating box the main savings in absolute terms were in relation to the LDRs and the Transition Regions, while support for the MDRs was maintained; under the Michel proposals, the reverse was the case – support for the MDRs was cut while that for LDRs and Transition Regions was maintained.

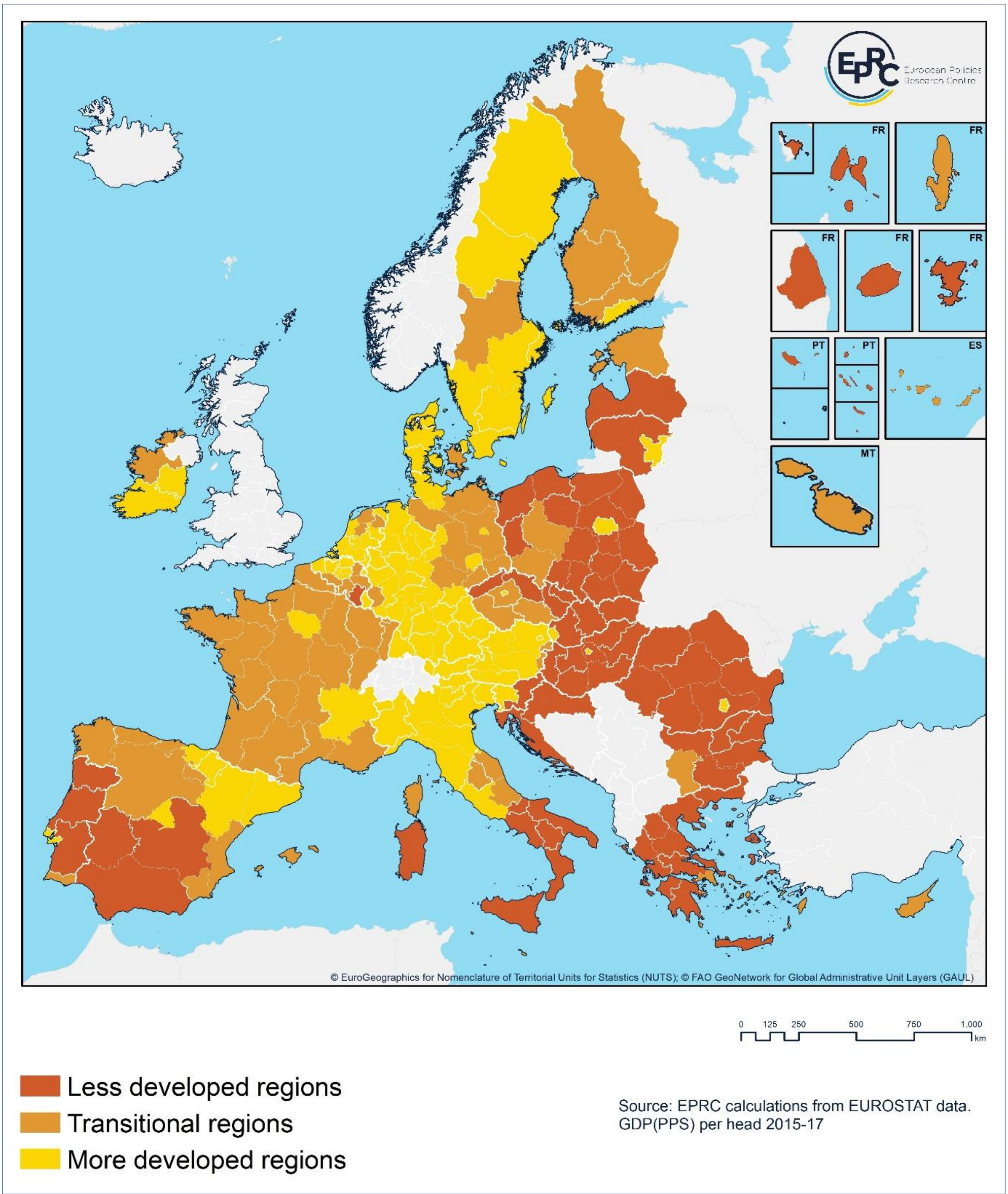
Table 5: Commission 2018, Finnish Negotiating Box and Michel Proposals for Cohesion Policy

	COM (2018) 375	FI NegoBox	Michel	COM to FI Negobox	FI NegoBox to Michel	COM to Michel
Economic, social & territorial cohesion, of which	**330,624**	**323,181**	**323,181**	**-2.3%**	**0.0%**	**-2.3%**
Investment for jobs and growth, of which:	***322,194***	***313,100***	***315,300***	***-2.8%***	***0.7%***	***-2.1%***
Less developed regions	198,622	195,600	200,000	-1.5%	2.3%	0.7%
Transition regions	45,936	42,200	44,900	-8.1%	6.4%	-2.3%
More developed regions	34,843	34,200	27,800	-1.8%	-18.7%	-20.2%
Cohesion Fund	41,349	39,700	40,700	-4.0%	2.5%	-1.6%
OMR & sparsely-populated	1,447	1,400	1,400	-3.6%	0.0%	-3.3%
Interregional innovation			500	~	~	~
European territorial cooperation	***8,430***	***7,930***	***7,930***	***-5.9%***	***0.0%***	***-5.9%***

Source: COM(2018)375; Finnish Presidency Negotiating Box; [99] *and Council Presidency proposals.* [100]

Importantly, neither the Finnish negotiating box nor the Michel proposals were accepted by the Council. Indeed, those negotiations have partially been overtaken by the new package of proposals announced on 29 May 2020 with further funding for Economic, social and territorial cohesion under REACT-EU.

Map 4: Cohesion Policy status 2021-27 (EU27)



Source: *EPRC*

4.3 REACT-EU

4.3.1 Overall allocations

REACT-EU[101] provides for an additional €55 billion (2018 prices) for Cohesion Policy in 2020-2022. This is split between the current 2014-20 MFF (€5 billion) and future financing (€50 billion).

For 2020, it is proposed[102] to amend MFF 2014-20, increasing the commitment appropriations for Subheading 1b from €47.295 billion to €53.109 billion. [103]

For 2021-2022, sums under REACT-EU would be channelled into Cohesion Policy, but the proposals do not integrate these sums with MFF 2021-27; they remain as proposals under the Next Generation EU and as such are externally assigned revenues within the meaning of the Financial Regulation, and not part of MFF 2021-27. The overall sums are frontloaded into 2021 for which €42.434 billion is allocated.

4.3.2 Allocation mechanisms

Unlike some other elements of the Recovery plan for Europe, such as the Recovery and Resilience Facility, the Just Transition Fund, and the EAFRD (see Annex to this section), there are no indicative national allocations for REACT-EU at this stage; allocations are expected to be made in autumn 2020 and 2021 for 2020-2021 and 2022, respectively.

Allocations are proposed to be based on a key, which would distribute funding largely on the basis of relative loss of GDP, adjusted by national prosperity, as indicated in Table 6.

Table 6: Criteria for allocating REACT-EU

Weighting	Indicator	Adjustment
2/3	Share of loss of seasonally-adjusted GDP in reference period	Divided by Member State GNI per head expressed in EU27=100
2/9	Share of unemployment	Weighted average of: • Share total unemployed in January 2020 (3/4) • Share of total increase unemployment in reference period (1/4)
1/9	Share of youth unemployment	Weighted average of: • Share youth unemployed in January 2020 (3/4) • Share of total increase in youth unemployed in reference period (1/4)

Source: *Annex to proposal for REACT-EU, COM(2020)451 final.*

Note that the proposal does not specify either the year of GNI to be used for adjusting the share of GDP loss (though 2019 could be assumed), nor whether GNI is to be expressed in euros or PPS. It is also noteworthy that 25 percent of the distribution key relates to unemployment in January 2020, before COVID-19 really had any impact in Europe.

The allocations resulting from the key would be subject to capping relative to prosperity. Capping applies to the whole period 2020 to 2022 and would be calculated as set out in Table 7. Surpluses released through capping would be redistributed among Member States with GNI per head below the EU27 average in 2015-2017.

Table 7: Capping of REACT-EU allocations in 2020-22

GNI per capita 2015-17 (EU27=100)	Cap as % of real GDP in 2019
Greater than 109	0.07
Less than 90	2.6
Between 90 and 109	Linear interpolation between 0.07% and 2.6 % of real GDP

Source: *Annex to proposal for REACT-EU, COM(2020)451 final.*

There is no explanation for the ranges and caps selected, but small differences in GDP are apt to produce sharp differences in levels of capping in both absolute and per capita terms (see Table 8). In looking at Table 8 it important to stress that these are *not* allocations, but rather the theoretical maxima over the period 2020-22.

Table 8: Impact of capping under REACT-EU

	GNI(PPS) 2015-17 EU27=100	Cap as % of 2019 GDP	REACT-EU cap 2020-22 (€m)	Cap in € per head
BG	48.7	2.60	1578	218
RO	58.7	2.60	5807	292
HR	60.4	2.60	1402	331
LV	65.4	2.60	792	397
HU	65.9	2.60	3740	379
PL	66.9	2.60	13755	357
GR	69.1	2.60	4874	447
LT	74.0	2.60	1257	429
SK	75.8	2.60	2449	452
PT	75.9	2.60	5520	531
EE	76.3	2.60	729	554
SI	82.0	2.60	1248	605
CZ	83.4	2.60	5725	544
CY	83.5	2.60	571	669
MT	89.2	2.60	343	790
ES	92.3	2.29	28543	614
IT	97.4	1.61	28843	474
FR	108.3	0.16	3864	58
FI	111.2	0.07	168	31
BE	119.2	0.07	332	30
SE	125.5	0.07	332	34
DE	128.0	0.07	2405	30
AT	129.0	0.07	279	33
NL	129.7	0.07	568	34
DK	131.8	0.07	218	39
IE	143.5	0.07	243	52
LU	180.7	0.07	44	80

Source: *EPRC calculations from Annex to proposal for REACT-EU, COM(2020)451 final and Ameco online.*

As mentioned above, the allocations are to be made in two phases to take account of changing circumstance and up-to-date data.

For 2020, an initial first step is an allocation of €30 per inhabitant for the outermost NUTS 2 regions (about €150 million). The remainder of the allocations are to be decided using the reference data below.

	GDP reference period	Unemployment reference period
2020 and 2021	First semester 2019 First semester 2020	January 2020 Average of June to August 2020
2022	First semester of 2019 First semester 2021	January 2020 Average of June to August 2021.

Source: *Annex to proposal for REACT-EU, COM(2020)451 final.*

4.3.3 Estimating REACT-EU allocations

The data on which REACT-EU would be allocated are not yet available. Nevertheless, some tentative estimates can be made using OECD growth forecasts for GDP; unemployment forecasts are more difficult and likely to be severely affected by the timing of decisions on

ending furlough and other labour market measures. The discussion below therefore takes account only of the GDP element (two-thirds of the total) of the methodology and 'assumes' for these purposes that unemployment (2/9) and youth unemployment (1/9) would follow a similar pattern.

These estimates use the OECD forecast growth rates for a 'single hit' and compare forecast 2020 GDP with 2019 GDP.[104] It is assumed that some €45 billion would be distributed for 2020-21 on this basis (the allocation for the OMRs is not included here) and the capping outlined above is applied in proportion to allocation for 2020-21.

The outcome of this process is shown in Table 9. This suggests that Italy and Spain alone would account for over 45 percent of all REACT-EU allocations.

As mentioned earlier, the methodology does not specify that GNI in PPS is to be used for weighting the GDP loss shares, but calculations using both PPS and euros are shown in Table 9. This suggests that for some countries this has a significant impact on outcomes.

Of course, such estimates must be treated with extreme caution – actual outturns will depend on GDP data available in summer 2020 for the first semester of 2020, which will begin to reveal the accuracy of the OECD predictions. Nevertheless, it is important not to underestimate the role of capping in the calculations, for some Member States (notably Germany, France, Austria, the Netherlands, Finland and Sweden), capping will determine their REACT-EU allocations however sharp the fall in GDP.

Table 9: Estimated REACT-EU allocations 2020-2021 (€ million, 2018 prices)

	Allocation calculated using GNI weighting in € per head	Allocation calculated using GNI weighting in PPS
BE	271.3	271.3
BG	849.0	543.1
CZ	1839.3	1596.6
DK	178.1	178.1
DE	1967.8	1967.8
EE	194.5	188.7
IE	198.9	198.9
GR	1480.1	1451.2
ES	8990.4	10059.5
FR	3161.3	3161.3
HR	644.1	509.6
IT	11593.0	13864.0
CY	142.3	151.4
LV	266.6	233.7
LT	399.3	321.2
LU	36.4	36.4
HU	1393.8	1074.3
MT	85.4	88.6
NL	465.1	465.1
AT	228.2	228.2
PL	5163.8	3766.4
PT	1691.2	1727.6
RO	2183.2	1425.1
SI	284.5	288.0
SK	883.2	794.7
FI	137.5	137.5
SE	271.9	271.9

Source: *EPRC calculations from Annex to proposal for REACT-EU, COM(2020)451 final and Ameco online.*

4.4 Concluding points

At this stage in the negotiations it is fair to conclude that the implications for Cohesion Policy funding remain rather opaque. MFF 2014-20 is set to be boosted by a modest adjustment (€5 billion) to be allocated through REACT-EU on the basis of the methodology outlined above. However, new proposals for MFF 2021-27 *reduce* funding for economic and social cohesion compared to the 2018 proposals, but it is unclear how this reduction is achieved or how it is distributed among Member States. On the other hand, REACT-EU provides for significant sums in the early part of the period - some €42 billion (current prices) for 2021, albeit outside MFF 2021-27. It remains to be seen what the interplay of these strands of policy means for the funding available for Cohesion Policy at the level of the Member States.

Annex to Section 4

Table 10: Proposed and estimated national allocations under 'territorial' funding streams (€m)

	Recovery and resilience facility (grants)	Econ, social & territorial cohesion	React-EU 2020-22	EAFRD	Just Transition Fund
BE	4821	2444	332	539	380
BG	6131	8930	1180	2258	2693
CZ	4678	17848	2169	2075	3413
DK	1723	574	218	607	185
DE	21545	15688	2405	7935	5152
EE	1004	2915	253	705	736
IE	1209	1088	243	2121	176
GR	17874	19239	1884	4085	1726
ES	61618	34005	11003	8025	1806
FR	32167	16022	3864	9692	2142
HR	6125	8768	766	2255	387
IT	63380	38564	14116	10182	2141
CY	1082	877	169	128	210
LV	2170	4262	306	941	398
LT	2766	5642	459	1564	568
LU	101	65	44	98	19
HU	6136	17934	1763	3336	543
MT	226	597	102	98	48
NL	5197	1442	568	586	1296
AT	2950	1280	279	3851	282
PL	26808	64397	6332	10563	8000
PT	12905	21172	2060	3953	465
RO	13505	27204	2562	7739	4449
SI	1693	3073	359	820	538
SK	6140	11780	1065	1825	954
FI	2196	1605	168	2340	968
SE	3849	2141	332	1694	324
Total (€bn)	**310**	**330**	**55**	**90**	**40**

Note: Cohesion figures relate to the Commission's 2018 proposals which have been superseded, but no methodology or national breakdown provided. Colour coding serves to highlight the most significant funding source *in each country*.

Source: Recovery and resiliency facility: COM(2020)408 final/3; Economic and social cohesion: COM(2018)375; REACT-EU: EPRC calculations from COM(2020)451, OECD forecasts, Eurostat and AMECO Online data; EAFRD: EPRC calculations from COM(2018)392 as amended; Just Transition Fund: COM(2020)460; QANDA/20/931.

Table 11: Changes to Commission proposed methodology in Finnish Negotiating Box and Michel proposals

	COM(2018)475 CPR	FI NegoBox	Michel EUCO 14 February 2020
GDP data	2014-16	2015-17	2015-17
GNI data	2014-16	2015-17	2015-17
Prosperity coefficient GNI<82%	2.8	2.8	2.85
Prosperity coefficient GNI>82% <99%	1.3	1.2	1.25
Prosperity coefficient GNI>99%	0.9	0.7	0.7
LDR unemployment premium	€ 500	€ 570	€ 570
LDR youth unemployment premium	€ 500	€ 570	€ 570
LDR low education premium	€ 250	€ 250	€ 270
LDR GHG premium	€ 1	€ 1	€ 1
LDR migration premium	€ 400	€ 405	€ 405
TR theoretical min per capita	€ 18	€ 16.7	€ 15.2
TR unemployment premium	€ 500	€ 560	€ 560
TR youth unemployment premium	€ 500	€ 560	€ 560
TR low education premium	€ 250	€ 250	€ 250
TR GHG premium	€ 1	€ 1	€ 1
TR migration premium	€ 400	€ 405	€ 405
MDR per capita base for envelope	€ 18	€ 16.7	€ 15.2
MDR population weight	20%	20%	20%
MDR unemployment weight	15%	15%	12.50%
MDR employment weight	20%	20%	20%
MDR tertiary education weight	20%	20%	22.5
MDR early education leavers weight	15%	15%	15
MDR prosperity weight	7.5%	7.5%	7.5
MDR low population density weight	2.5%	2.5%	2.5
MDR GHG premium	€ 1	€ 1	€ 1
MDR migration premium	€ 400	€ 405	€ 405
CF per capita base for envelope	€ 62.9	€ 62.9	€ 62.9
CF share calculation	Allocation key based on shares of population and area, adjusted for GNI disparities	No change	No change
Capping band 1	GNI<60% 2.3% GDP	GNI<60% 2.3% GDP	GNI<55% 2.3% GDP
Capping band 2	GNI<65% 1.85% GDP	GNI<65% 2% GDP	linear interpolation
Capping band 3	GNI>65% 1.55% GDP	GNI<70% 1.55%	GNI>68% 1.5% GDP
Capping band 4		GNI>70% 1.50%	
Ceiling % of 2014-2020	108%	107%	107%
Floor % of 2014-2020	76%	73%	73%
Ceiling for prosperous MS	>120% EU GDP - 100% of 2014-2020	>120% EU GDP - 92% of 2014-2020	>120% EU GDP - 80% of 2014-2020
Ceiling for prosperous MS			>110% EU GDP - 90% of 2014-2020

5 IMPLICATIONS OF NEW MEASURES FOR IMPLEMENTING COHESION POLICY

Critical to the European Recovery Plan measures for investment is the ability of Member States to spend the additional resources, and undertake the associated reforms. Cohesion Policy is an important part of the delivery system, but there are significant challenges. This section reflects first on the emergency measures introduced under CRII and CRII+, and then the key issues identified regarding the implementation of new funding proposed by the Commission.

5.1 The Coronavirus Investment Response Initiatives, March-April 2020

The largest investment component to the Commission's initial crisis response has been through Cohesion Policy. By the start of April, the Commission had launched its Coronavirus Response Investment Initiative (CRII) and later that same month CRII+ to provide liquidity and administrative flexibility for Cohesion Policy programmes with a range of measures (see Box 5.

Box 5: Summary of CRII provisions

1. Liquidity from non-utilised SFs and a delay in repaying unspent pre-financing, to be used for crisis-related purposes.
2. All Covid-19 related expenditure eligible under Cohesion Policy rules, with three recommended priorities:

   - Coronavirus-related health expenditure: Use ERDF and ESF to invest in healthcare systems - purchase of health and protective equipment, disease prevention, e-health, medical devices (including respirators, masks and similar), securing of the working environment in the health care sector and ensuring access to health care for the vulnerable groups.

   - Support to SME working capital: Use ERDF to help companies tackle short-term financial shocks linked to the Coronavirus crisis, including for example working capital in SMEs, with special attention to the sectors which are particularly hard hit by the crisis.

   - Short-term employment schemes: Use ESF to temporarily support national short time working schemes.
3. OP modifications facilitated.
4. Enlarged scope for Solidarity Fund.
5. Additional funding from EFSI to EIF to support SMEs and small mid-caps via COSME and Innovfin.
6. Commission has set up a Task Force to coordinate work with Member States.

Source: Summarised from https://ec.europa.eu/regional_policy/en/newsroom/coronavirus-response/ and https://ec.europa.eu/regional_policy/sources/newsroom/crii/fs_crii_0204_en.pdf

The CRII proposals entered into force on 1 April 2020 after a rapid legislative turnaround through the European Parliament and Council. CRII provided liquidity to Member State budgets by delaying the repayment of pre-financing and made eligible Coronavirus crisis-related expenditure.

On 2 April, the Commission proposed the Coronavirus Response Investment Initiative Plus (CRII+) with a further set of exceptional measures introducing flexibility and simplification, support for the most deprived and for the fishing industry (see Box 6). This package was adopted by the European Parliament on 17 April and the co-legislators on 24 April 2020. The CRII+ provisions introduced increased flexibility, allowing the transfer of resources between Structural Funds, between different categories of regions and providing flexibility in thematic concentration obligations. In addition, a 100 percent EU co-financing rate was introduced for the accounting year 2020-21.

Box 6: Summary of CRII+ provisions

1. Exceptional and temporary possibility for Member States to request a co-financing rate of 100 percent to be applied for the accounting year 2020-21.
2. Additional flexibility to transfer resources between the Cohesion Policy funds, and between categories of regions (2020 budget appropriations only, Covid-19 operations only and with no detriment to LDRs). For ERDF, ESF and CF; YEI not included.
3. Exempted Member States from the need to comply with thematic concentration requirements.
4. Exempted Member States from the requirement to amend Partnership Agreements.
5. Postponed the deadline for the submission of 2019 annual reports.
6. Extended the possibility to make use of a non-statistical sampling method by audit authorities, for the accounting year starting on 1 July 2019 and ending on 30 June 2020.
7. Exempted the requirement to review and update of *ex ante* assessments and business plans, in order to facilitate the adjustment of financial instruments to address the crisis (N.B. for existing FIs only – new FIs require a 'short and quick' *ex ante*).
8. Made expenditure for completed or fully implemented operations fostering crisis response capacity in the context of the coronavirus outbreak exceptionally eligible.
9. Allowed limited financial flexibility at the closure of programmes (allowing 'overspend' up until ten percent of the budget allocated to a given priority, provided it is compensated by an equivalent reduction in another priority of the same programme).
10. Allowed for ERDF to provide support for undertakings in difficulties in specific circumstances following adoption of the State Aid Temporary Framework.
11. Allowed retrospective support for operations already implemented in response to the crisis.

12. Rule changes in Fund for European Aid to the Most Deprived (FEAD), allowing delivery of food aid and basic material assistance through electronic vouchers and to provide the protective equipment.
13. Measures related to EMFF and EAFRD.

Source: Summarised from https://ec.europa.eu/regional_policy/en/newsroom/news/2020/04/04-02-2020-coronavirus-response-investment-initiative-plus-new-actions-to-mobilise-essential-investments-and-resources and https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_574

How useful have the CRIII/CRII+ been on the ground? Recent EPRC research[105] across 16 Member States shows that programme authorities have welcomed the provisions introduced in CRII and CRII+, particularly the administrative flexibilities, although:

- the adaptation of programmes and their implementation is still evolving;
- programmes have very different levels of capacity to respond; and
- the 'heavy lifting' on investment responses was often done through domestic policies and resources.

That said, many programmes were able to move quickly to reallocate resources into:

- health – strengthening the capacity of health care systems, mobile nursing units and anti-covid research;
- social care e.g. to provide support for care staff, public services and home care provision; and
- business support – grants for business, financial instruments for SME, employment support, and reducing workplace risks.

EPRC research and informal Commission feedback suggests that the most frequently used flexibility measures so far in order of importance are:

- the 100 percent EU co-financing rate;
- transfers of resources between the Funds;
- transfers of resources within priority axes of the same fund and programme;
- flexibility on Financial Instruments;
- transfers of resources between categories of regions;
- flexibility on thematic concentration;
- extension of deadlines for project implementation and for project calls; and
- simplification with respect to audit and to Financial Instruments ex-ante assessment

A full assessment is only possible towards the end of the year given that it is possible to make programme amendments later with a retroactive eligibility date.

The measures had less impact in those programmes which were already largely fully committed, but there has still been an influence through 'repurposing' of interventions and projects, for example from business growth to business survival. Existing support mechanisms and calls have been adapted to the new context. However, there are clearly concerns about the implications for programmes down the line:

- difficulties in meeting n+3;
- the impacts on results and performance;
- whether the voluntary indicators will allow us to get systematic insights into how well funding has been used;
- how long the current flexibility will be available; and
- the closure timetable.

Looking ahead, a greater role for ESIF is expected during the forthcoming recovery phase including the use of additional funding provided through the proposed REACT-EU initiative in the current and future programmes, also taking account of the recent amendments to the CPR and Fund Regulations in May 2020 as part of the Recovery Plan.

5.2 Challenges for implementing the Recovery Plan through Cohesion Policy

There is substantial support for the ambitious spending plans in the EU recovery plan and many stakeholders consider that the Commission has risen to the challenge of the crisis.[106] According to the Cohesion Alliance's draft statement, the Commission's proposal ensures the role of Cohesion Policy as a strong EU long-term investment policy, and the investment of €55 billion through REACT-EU is considered to provide an effective response to the crisis.

Nevertheless, there are several areas of concern particularly relating to absorption, coherence across instruments, and the territorial dimension.

5.2.1 Absorption

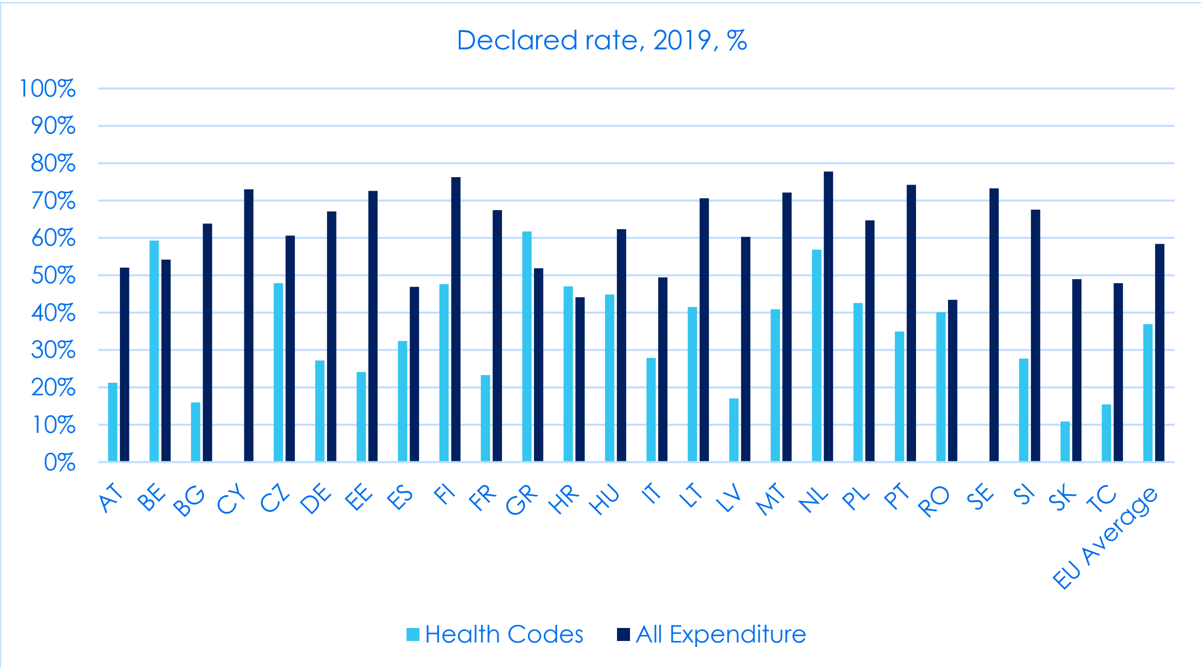
A key question is whether programmes will be able to spend the additional funding under REACT-EU rapidly. There are wide differences in level of absorption of 2014-20 programmes. At EU level, according to latest data, 85 percent of planned spending has been committed, and 41 percent spent paid out, which is slower than in previous periods. This masks wide differences between programmes and Thematic Objectives. Some TOs like ICT, network infrastructure and climate adaptation that are closely connected to the green and digital agendas of the recovery plan have even lower commitment and spending rates.

As regards the role of Cohesion Policy in supporting health-related expenditure, the REACT-EU initiative and amended Regulations for 2021-27 are intended to support investment in health services. However, while ESIF makes an important contribution to health, it is not always easy to spend:

- Member States vary greatly in their use of ESIF for health expenditure, which is generally not a priority - the absorption rates for spending on health infrastructure, ICT in health, and active and healthy ageing have been running considerably slower than for ESIF spending as a whole (see Figure 2);

- e-health in particular has been problematic, particularly because of the need for digital skills in the workforce;

Figure 2: Absorption of health expenditure in EU Member States



Source: Inforegio data portal, https://cohesiondata.ec.europa.eu/

- the emphasis has been more on hard investment (e.g. hospital construction) rather than softer areas;

- participation and active involvement by local health groups and people has sometimes been lacking;

- there are potential capacity issues – Managing Authorities and Intermediate Bodies may not have much experience in the area of health expenditure, and potential beneficiaries in health may lack experience in ESIF; and

- coordination between the ERDF and ESF with the EU Health Programme for 2014-20 has been weak, attributed to limited awareness of the possible complementarities among implementing bodies despite coherence in the objectives and thematic fields of intervention across the funds.[107]

A lesson from the early years of the existing period is the need for rapid approval of the programming of the REACT-EU resources to avoid delays in the availability of resources, as well as timely release of closure guidance and resources. In this context, the Cohesion Alliance has called for a timely start of 2021-2027 Cohesion Policy programmes and an extended system of phasing out for 2014- 2020 programmes to respond to the current crisis and to prepare the long-term development strategies. In case of delays, transitional arrangements are needed to avoid a funding gap between the two programming periods.

Given that absorption can be facilitated by reprogramming, the increased flexibility for transfers between Cohesion Policy funds is broadly welcomed. However, some REGI Committee members consider that the cumulative limits imposed on transfers will diminish the impact of the measure, and that higher transfers should be allowed to accommodate this.

A final issue is how to achieve an optimal balance between short-term absorption goals and longer term impacts. The European Commission's focus on flexibility to ensure rapid release and use of funding implies that territorial and thematic targeting is a lower order priority, justifiably so given the immediate investment needs and benefits to the recovery effort. However, while flexibility is widely supported to improve the responsiveness of the policy to the crisis, it raises the question about the extent to which Cohesion Policy should be used as a crisis response instrument for countercyclical measures and whether this jeopardises the policy's long-term goals and impact. Central to this debate is whether flexibilities introduced under REACT-EU or general regulation to respond the crisis should be temporary or permanent.

5.2.2 Coherence

The importance of complementary and well-coordinated recovery instruments with ESIF and other EU funding programmes is stressed in the responses of all territorial stakeholders and the EP to the Commission's proposals. The CoR calls for further clarity on the interplay between the React EU, Just Transition Fund, and Recovery and Resilience Facility to avoid additional complexity and restrictions being imposed by Member States. Concerns about insufficient coherence across EU instruments stem from the different objectives and financial allocation methods of the instruments, as well as uncertainty about the links with wider green and digital agendas and the European semester.

The allocation methods for Cohesion Policy, React-EU, the Recovery & Resilience Facility, and the reinforced JTF differ significantly. The REACT-EU instrument will allocate funding on the basis of national statistical indicators, rather than regional statistics as used in the general methodology for allocating Structural Funds. Further, there is no breakdown of the distribution

of resources by category of region. The intention is to provide Member States with flexibility to allocate funding among regions. However, the outcomes may not correspond to objective and needs-based territorial criteria, and could also lead to shifts in funding to national programmes (AER, CPMR). While the preamble to the regulation states that Member States are expected to take into account the different regional needs and development levels and to focus on less developed regions, the regulation does not provide a binding obligation to do so.

There is also the uncertainty about how links between the green and digital agenda with the REACT-EU/RRF and other relevant instruments will work, including consistency with the Green Deal and Sustainable Development Goals, national energy and climate plans. An open question is whether REACT-EU and other EU instruments should have clear climate objectives and how the commitment to allocate 25 percent of total EU spending to climate-friendly expenditure will be mainstreamed across the different instruments.

The exclusion of the EMFF from the REACT-EU programme is viewed as disappointing given the increased flexibility in the use of the regional policy funds (CPMR). This is in a context of broader concern about the loss of coherence between ERDF/CF and the ESF+ and the rural development and fisheries interventions in the Regulatory proposals and planning for 2021-27 (CoR).

The role of the European Semester as a coordination mechanism for monitoring Member States to assure that the EU budget recovery investments are compatible with the EU objectives is strengthened through RRF. The question is how to establish clear commitments to reforms, climate objectives and, more controversially, the rule of law. A related issue concerns the need for transparency in decision-making and involvement of Member States through the Council.

Finally, there will be practical challenges on the ground about where different interventions and projects are programmed and how they relate to each other. As noted, coordination between the ERDF and ESF with the current EU Health Programme for 2014-20 has been weak. The major increase in resources for the new EU Health Programme and the new emphasis on health expenditure in Cohesion Policy calls for stronger coordination to enable synergies across the funds and instruments.

5.2.3 The territorial dimension

EU Cohesion Policy plays a central part in the EU Recovery Plan through the REACT-EU initiative and adjustments to make the policy more flexible and fully aligned with recovery priorities. However, the absence of a strong territorial dimension to REACT-EU and especially the larger Recovery and Resilience Facility suggests that territorial cohesion objectives have not been fully taken into account.

The Regulation for REACT-EU refers to the involvement of "local and regional authorities, as well as relevant bodies representing civil society, in accordance with the partnership principle" in the preamble but not in the regulatory requirements of the legislation. Ensuring the involvement of regions for the delivery and implementation of the REACT-EU funding in line with the partnership principle is critical for the CoR and CPMR. The AER position firmly opposes any attempt to centralise Cohesion Policy and stresses the importance of the consent of all partners before funds are programmed by Member States. As noted earlier, it is unclear how the territorial dimension will be applied given that the allocations are national, and there is flexibility to channel the funding through a dedicated (national) programme.

The territorial dimension of the Recovery & Resilience Facility is even less clear. The exclusive focus on national measures and the absence of a clear role for regional or local authorities in developing or implementing the RRF plans has been criticised by territorial stakeholders (AER, CoR, Cohesion Alliance, CPMR, EUROCITIES). The embedding and governance of the RRF under the European Semester limits the opportunities for regional participation and influence (CPMR). The strong link of the RRF to the European Semester and to country specific recommendations is perceived to pose a threat of further centralisation of the recovery plans. In it draft declaration, the Cohesion Alliance urges all EU and national institutions to take the needed steps to ensure that the national plans for recovery and resilience comply with the partnership principle, respond to the real needs of citizens and businesses and allow for stronger and more structured involvement of local and regional authorities. Similarly, the EUROCITIES networks calls for multilevel governance and the partnership principle to be fully implemented, ensuring that cities are involved in the development of national recovery plans and investment priorities for Cohesion Policy including:

- clear references to the application of the principles of partnership and multilevel governance in the regulatory framework;
- a stronger local dimension in the European Semester process, assessing urban needs and local investment gaps;
- support at EU level for the meaningful engagement of cities in the development of the national recovery and resilience plans; and
- direct access for cities to the funds during at least the recovery period for both quicker deployment and greater impact of the funding at local level.

The AER argues that the new recovery instrument must reinforce Cohesion Policy objectives. Its funding must be implemented in a complementary and coordinated way in relation to Structural Funds and other EU programmes and reach European regions, cities and villages swiftly. The Committee of the Regions and CPMR have been calling for the European Commission to apply the Cohesion Policy partnership and multilevel governance principles to the European Semester framework for some time. Several CoR opinions have recommended a Code of Conduct for the involvement of local and regional authorities in improving the governance of the European Semester,[108] providing local and regional authorities a formal say

in translating country-specific recommendations through dialogue into investment priorities in Cohesion programmes.

The territorial dimension of other centrally managed programmes such as Horizon Europe and Invest EU is also pertinent given the increases in their budgets to fulfil the objectives of the Green recovery and the EU Industrial Strategy. The need for a territorial dimension in these programmes is important to address the uneven territorial challenges of the green and digital agendas, and to help coastal regions to support the green recovery of their maritime sectors (CPMR).

Finally, with respect to the JTF, members of the REGI committee have called for flexibility in territorial transition plans to address the tailor-made needs of regions. Similarly, the CoR opinion on the JTF calls for flexibility in the scope of activities allowed under the regulation, based on agreements between local and regional authorities, the Member State and the European Commission.

5.2.4 Budgetary issues

Despite the increased funding under REACT-EU, the revised MFF proposal cuts the allocations for the ERDF and ESF under the main Cohesion Policy budget heading compared to the initial 2018 proposal by the Commission (CPMR, AER). The AER would prefer to see longer-term additional support for Cohesion Policy instead of the temporary initiative proposed. The reduction in relative resources for the ESF+ implies a decline in the social dimension of the overall package, which is of concern to the European Parliament.[109]

With respect to the REACT-EU allocation methodology, the use of January 2020 unemployment statistics, accounting for 25 percent of allocation key, is also problematic as there is no direct connection to the pandemic and its effects. However, the use of recent statistics in autumn 2020 and 2021 will better capture the adverse impact of the crisis and has received support in REGI committee debates.[110]

In a similar vein, the mid-term review of total cohesion allocations in 2024 in order to take account of latest available statistics is viewed positively (CoR, CPMR), not least because the break-down for 2021-2027 will be based on pre-crisis regional data (2014-2017) that do not reflect the considerable territorial impacts of the crisis at territorial level and shifts in regional eligibility.

The provisions to allow transfers from Cohesion Policy to other instruments including the RRF is feeding existing concerns about the policy becoming a delivery vehicle for wider EU thematic objectives and fears that it could lead to a reduction of cohesion resources in favour of centrally managed instruments. This was already evident in the debate on the Commission's 2018 proposals for the 2021-27 MFF, where there was a clear shift in priority from shared management to centrally managed policies to provide more scope for Commission influence

over spending. A key concern for the EP and territorial stakeholders is that the Recovery and Resilience Facility will allow the unlimited transfer of resources from shared management policies to the Facility at the request of Member States (Article 6), which could imply moving substantial funding away from EU Cohesion policy.

From a solidarity perspective, however, it is important to note that the RRF has a strong redistribution component as countries with lower GNI per capita will receive significantly more funding according to the Commission's allocation methodology,[111] and the national plans are required to show how the funding contributes to cohesion. However, as discussed in section 2.3, the allocation formula is contested and the Council negotiations will need to address other redistributive considerations such as whether to provide advance payments, options for GNI capping and calls for national co-financing.

The significant increase of the budget for the Just Transition Fund is widely supported as a positive development for pursuing a just and green transition that builds on Cohesion Policy principles (Committee of the Regions, REGI Committee, CPMR). The increased budget is in line with previous EP demands, but the compulsory transfers from the European social and regional development funds is contested, especially given the increased budget for the JTF. Instead, it is proposed that transfers should be voluntary according to needs, or that the level of mandatory transfers is reduced.[112] There is also criticism of the allocation mechanism and perceived bias against Southern European countries. The additional funding for the JTF has contributed to the existing debate about targeted regions and potential extensions to the list of eligible regions.

6 CONCLUSIONS

The Commission's proposals for European recovery in the form of a revised MFF and Next Generation EU represent an ambitious and impressive response to the massive economic impact of COVID-19, all the more so because they have been developed within such a short time frame. The scale of the funding is large enough to constitute a credible response to the economic damage of the crisis, especially in countries like Italy and Spain. It recognises the budgetary concerns of some Member States by making the funding time-limited, and providing a proportion of the funding through loans. It is bold in proposing the mutualisation of debt over a long enough time period to allow the most-affected countries to recover before repayment begins. It links the package to the long-term priorities of the Union – digitalisation and the Green Deal – and it seeks to improve the strategic economic autonomy and future resilience of the EU.

The proposals also extend the influence of the European Commission, with the emphasis on investment and structural reforms coordinated through the European Semester process and resources for a new health programme and crisis response tools. The instruments embody considerable flexibility, giving Member States scope to make decisions on priorities and governance. And importantly, the EU response – from the debate over the road-map to the launch of the proposals – has been couched in the language of mutual support, solidarity and strengthening the Union after a rocky decade.

A key question is whether the Commission has been over-ambitious – for several reasons. First, while the European Council on 19 June demonstrated broad support for the principle of a recovery package, and the Commission's proposals are supported by a large number of Member States, there are important differences between countries on key issues such as the size of the package, the balance between grants and loans, the mutualisation of debt, and Own Resources.

Second, there are multiple allocation mechanisms for the different instruments, each with differing implications for individual Member States. They involve some new allocation algorithms with indicators and weightings that are as yet unclear or disputed, and where the most relevant data are not (yet) available to judge trends and patterns of the sectors and regions most affected by the crisis.

Third, the complexity and interlocking nature of the proposals present major challenges for understanding and negotiating the legal framework, especially with the ambition of completing them by the end of 2020. Moreover, there is still 'unfinished business' on the Commission's regulatory proposals from May 2018, with inter-institutional negotiations having been suspended in March 2020.

From a Cohesion Policy perspective, it is interesting to note that among the principles for the EU response articulated by the European Council President in April – solidarity, cohesion and convergence – the latter two were hardly mentioned by the Commission President in launching the proposals one month later. The Commissioner for Cohesion and Reforms has repeatedly referenced cohesion being 'in the DNA' of the proposals. However, the proportion of funding explicitly allocated for cohesion purposes under REACT-EU– while sizeable at €55 billion for 2-3 years – is a relatively small part of the overall package. Shared management and the role of regions are not greatly in evidence, and much will depend on the cohesion orientation of the European Semester and how national recovery and resilience plans for the RRF are drawn up.

Finally, as with any policy, the crucial success factor is implementation. Although the proposals explicitly seek to use structural reforms to improve the quality of governance, reforms will take time to put in place and operationalise. Yet, more than ever, the success of the EU proposals will be determined by whether the allocated funding can be spent. Within Cohesion Policy, national and regional authorities are already fully stretched in the triple tasks of completing the commitment of funding for 2014-20, adapting programmes and repurposing interventions in response to the crisis, and preparing the 2021-27 programmes without clear budgetary and regulatory parameters. They now face further planning and programming obligations through the multiple funding streams proposed.

Fast spending does not always equate to effective or regular spending, and the ECA has already signalled concerns on accountability with respect to the CRII/CRII+ packages. These concerns are bound to be amplified with the anticipated pace of implementation of the recovery instruments, especially if undertaken with simplified and flexible processes that are less easy to track.

The Commission has sought to develop proposals that maximise what the EU can do to support recovery, and demonstrate to European citizens that 'solidarity' is tangible. Whether the collective interests that make up the EU can achieve political agreement on the Recovery Plan for Europe, negotiate legal frameworks and spend the allocated funding quickly and effectively will be critical for the future direction of European integration.

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European Policies Research Centre	Delft European Policies Research Centre
European Policies Research Centre School of Government and Public Policy University of Strathclyde 40 George Street Glasgow G1 1QE T +44(0) 141 548 4898 T +44(0) 141 548 3061 E eprc@strath.ac.uk W http://www.eprc-strath.eu/	Stichting EPRC Delft Faculty of Architecture and the Built Environment, Technische Universiteit Delft Julianalaan 134 2628 Delft T +31 (0) 15 27 86093 E info@eprcdelft.eu W http://www.eprc-strath.eu/