



Will Cohesion Policy Recover from COVID?

EPRC blog

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With the inter-institutional negotiations on the Multinational Financial Framework still some distance from agreement, pressure is increasing on the Council and European Parliament to find a compromise that provides certainty on the EU's contribution both to recovery and longer term objectives. The delay is of particular concern for EU Cohesion Policy, which has played a crucial role in the EU's response to the COVID-19 pandemic through the mobilisation of investment and greater flexibility for Member States to tackle the effects of the crisis. The EU Recovery Package provides additional funding to Cohesion policy on a temporary basis through REACT-EU, but the main budgetary winner is the new Recovery and Resilience Facility. Moreover, the Council agreement on the MFF 2021-27 has cut the cohesion budget by 9 percent compared to 2014-20, and there are concerns that the long terms goals of the policy are being weakened. Further, Member States are faced with the triple challenge of spending the funding for 2014-20, adapting programmes and interventions in response to the crisis, while preparing the 2021-27 programmes and new instruments to support recovery and territorial cohesion.

What still needs to be resolved?

The Special European Council on 17-21 July 2020 was significant for reaching agreement on an innovative and substantial Next Generation EU recovery package in response to the COVID-19 crisis. The package broke new ground by enabling borrowing powers, and it introduced new conditionalities relating to structural reforms and minimum spending to address climate change. Agreement by the Council was, however, only reached by cutting proposed spending on 'flagship programmes' championed by the European Parliament



(Table 1) such as Horizon Europe, InvestEU, Erasmus+, the Child Guarantee, the Just Transition Fund, Digital Europe and Connecting Europe Facility and the European Defence Fund

The Next Generation EU recovery plan will provide up to €750 billion through a mix of grants and loans. At its heart is the Recovery and Resilience Facility (RRF), requiring Member States to draw up national recovery and resilience plans setting out both investment and reforms over the 2021-23 period. The Multiannual Financial Framework 2021-27 will make available €1,074.3 billion in commitment appropriations. The largest shares continue to be allocated to Cohesion Policy and the CAP, though their share (at 54 percent) of the budget has fallen substantially, with increased funding for priorities such as innovation, migration and security.

There are several important issues that were not fully resolved in the Council agreement or are subject to interpretation. One is the ability of the EU to deliver on the expectations associated with the RRF in terms of spending the funds effectively, promoting structural reforms, ensuring coherence across instruments and providing sufficient accountability. A second issue is whether Member States can reach agreement on the application of a rule of law conditionality to expenditure. Despite the progress made by the German Presidency in narrowing differences between polarised positions, it is unclear how significant the influence of the conditionality is likely to be in practice. Also challenging issue are the ambitious changes proposed for reforming the system of Own Resources especially the carbon and digital taxes given the implications for international trade and relations.

Table 1: Commitments to Next Generation – EUCO conclusions vs Commission proposal

NGEU programme		EUCO conclusions, July 2020	COM proposal, May 2020	% change
Pillar 1	Recovery & Resilience Facility, of which	672.5	560.0	20.1
	• Loans	• 360.0	• 250.0	44.0
	• Grants	• 312.5	• 0.8	0.8
	REACT-EU	47.5	310.0	-5.0
	Rural Development	7.5	50.0	-50.0
	Just Transition Fund	10.0	15.0	-66.7
Pillar 2	Solvency Support Instrument	0.0	30.0	-100.0
	Invest EU	5.6	26.0	-63.4
	Strategic Investment Facility	0.0	15.3	-100.0
Pillar 3	Health programme	0.0	15.0	-100.0
	rescEU	1.9	7.7	-5.0
	Horizon Europe	5.0	13.5	-63.0
	Neighbourhood, Development etc.	0.0	10.5	-100.0
	Humanitarian Aid	0.0	5.0	-100.0
Total NGEU, of which		750	750	-
• Loans		• 360	• 250	44.0
• Grants		• 390	• 500	-22.0

Source: EUCO conclusions, 21.7.20, Commission proposal, Pillars of NGEU, <https://bit.ly/3iXVmzQ>



Who gets what?

The budgetary implications of the Council agreement for Cohesion Policy are significant, implying a reduction of 9.2 percent in MFF funds for cohesion for 2021-27 compared to 2014-20, with marked variations across countries (Table 2). A total of 17 countries are set to see a reduction in Cohesion funding in 2021-27 under the EUCO conclusions, while only four countries would see an increase compared to 2014-20 (Italy, Romania, Greece and Bulgaria).

Table 2: Cohesion Policy allocations in 2014-20 and 2021-27

	2014-20	EUCO outcome	Change(€m)	Change%
EU27	363,751	327,439	-33,516	-9.2
SK	14,978	11,379	-3,599	-24.0
EE	3,819	2,951	-868	-22.7
LT	7,394	5,796	-1,598	-21.6
PL	83,571	66,422	-17,149	-20.5
SE	2,131	1,703	-428	-20.1
NL	1,435	1,147	-288	-20.1
AT	1,274	1,018	-256	-20.1
DK	571	457	-114	-20.0
LU	65	52	-13	-19.5
CZ	23,354	19,308	-4,046	-17.3
DE	19,670	16,366	-3,304	-16.8
LV	4,877	4,085	-792	-16.2
IE	1,250	1,060	-190	-15.2
HU	23,497	19,949	-3,548	-15.1
SI	3,372	2,909	-463	-13.7
HR	9,206	8,042	-1,164	-12.6
FR	16,693	14,937	-1,756	-10.5
PT	22,590	20,919	-1,671	-7.4
MT	782	743	-39	-5.0
FI	1,520	1,466	-54	-3.6
ES	31,818	31,388	-430	-1.4
BE	2,412	2,386	-26	-1.1
CY	853	851	-2	-0.2
IT	35,727	37,341	1,614	4.5
RO	25,040	26,806	1,766	7.1
GR	17,616	18,960	1,344	7.6
BG	8,234	8,998	764	9.3

Source: EPRC calculations from Implementing decision 2016/1941 (amending Decision 2014/190), using standard Cohesion Policy deflator and European Commission data. The totals concern only national allocations.

NGEU is legally distinct from the MFF as the resources are 'externally assigned revenues' which, in principle, are beyond the purview of the European Parliament. Nevertheless, NGEU funds are set to contribute to Cohesion Policy through REACT-EU, as well as to other funding sources with territorial implications (EAFRD and Just Transition Fund) or through Recovery and Resilience Plans (for the RRF grants). The redistributive effect of Cohesion Policy and other recovery instruments differs: 70 percent of the MFF Cohesion budget is allocated to Cohesion countries, compared to only 47 percent of RRF grants and an estimated 54 percent of React-EU.

Table 3: Proposed and estimated national allocations under 'territorial' funding streams (€m)

MS	Cohesion Policy	RRF grants	EAFRD	REACT-EU	JTF
PL	66422	23060	9394	5314	3500
IT	37341	65456	9555	11835	937
ES	31388	59168	7637	9232	790
RO	26806	13800	6882	2136	1946
PT	20919	13173	3816	1727	203
HU	19949	6257	2967	1486	238
CZ	19308	6745	1845	1809	1493
GR	18960	16243	3933	1590	755
DE	16366	22717	7707	2405	2254
FR	14937	37394	10220	3864	937
SK	11379	5835	1823	891	417
BG	8998	5981	2008	1008	1178
HR	8042	5950	2105	640	169
LT	5796	2432	1391	381	249
LV	4085	1873	837	254	174
EE	2951	1017	627	214	322
SI	2909	1558	779	302	235
BE	2386	5148	579	332	166
SE	1703	3701	1507	332	142
FI	1466	2332	2481	168	424
NL	1147	5572	521	568	567
IE	1060	1273	2186	243	77
AT	1018	2995	3675	279	123
CY	851	968	163	141	92
MT	743	204	87	85	21
DK	457	1554	540	218	81
LU	52	93	87	44	8
EU27	327439	312500	85350	47500	17500

Note: Colour coding serves to highlight the most significant funding source in each country.

Source: Cohesion Policy and RRF grants: European Commission; REACT-EU: EPRC calculations from COM(2020)451, OECD forecasts, Eurostat and AMECO Online data adjusted for EUCO outcomes; EAFRD: EPRC calculations from COM(2018)392 as amended and adjusted for EUCO outcomes; Just Transition Fund: COM(2020)460; QANDA/20/931 adjusted for EUCO outcomes.

Are the funding flows manageable?

Programme authorities responsible for ESIF are dealing with a moving target for the current and future period with substantial administrative work required in a tight time-frame. At this point in the programming cycle, the priority is usually ensuring commitment of funding allocations (which in some Member States remains a big challenge), complicated this year because of the pandemic. Cohesion Policy provided a rapid response to the first pandemic wave through the Coronavirus Response Investment Initiatives (CRII and CRII+) to facilitate liquidity and spending under the 2014-20 programmes by introducing administrative flexibilities. By the end of September 2020, more than €13 billion ERDF/CF has been reallocated to interventions in health, SME support, employment and other relevant fields. Not all managing authorities has much flexibility for redirecting spending; 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.

At the same time, Member States are preparing the next round of programmes for 2021-27. Most countries expect to finalise their 2021-27 PAs and OPs by in the first quarter of 2021, despite

the delayed approval of the regulations, disruption to the programming process and, in some cases, adjustments to priorities to take account of COVID. A key strategic concern is that there is insufficient coherence across the new EU recovery instruments with Cohesion Policy. The potential for synergies with the RRF is viewed positively by some countries, but there is also potential for overlap and competition for funding as well as fears that the prioritisation of the RRF could lead to a reduction of cohesion resources in the post-2027 period.

There are some important similarities between Cohesion Policy and the RRF suggesting there is strong potential for pursuing strategic coherence and synergies across the policies. They share a common legal basis in cohesion, are investment policies that are aligned with the European semester and have similar management and control obligations. The RRF could contribute to modernising the European semester and Cohesion Policy.

However, there are also inconsistencies in the territorial dimension, time-frame, management mode and financing, which could present difficulties in aligning the two policy domains and even competition for funding. The pressure to absorb the RRF in 2021-23 could conflict with the closure of the 2014-20 OPs and present implementation challenges in ensuring high-quality investments in mature projects aligned with the Green and Digital agendas. While the RRF does not have a place-based territorial focus like Cohesion Policy, the national objectives of the RRF are not irreconcilable with cohesion objectives given that national policies have spatial impacts on specific territories and can promote geographical spillover effects supporting both efficiency and equity goals.

	Recovery and Resilience Facility	Cohesion Policy
Territorial focus	National cohesion / non-spatial	Regional cohesion / place-based
Timescale	2021-26	2021-29
Management mode	Shared	Centralised/direct
Co-financing	no	yes

Taking a longer term view, a fundamental issue is whether the Cohesion Policy response to the crisis is blurring the purpose and long terms goals of the policy. The need for administrative flexibility to deal with the economic and financial consequences of the pandemic is undisputed. However, several net payers and the Commission argue that Cohesion Policy responses should be exceptional and temporary to ensure that the long-term structural objectives and spending priorities on green and smart growth are not undermined.

The major challenge for the Member States and EU institutions is now to use the available resources to facilitate recovery from the COVID-19 pandemic, whose health threats continue to constrain economic activity – and may continue to do so until a vaccine is widely introduced. The pandemic has of course affected countries and regions differently. The risk is that it will further entrench territorial inequality, slowing a resumption of European regional convergence, especially in those parts of Europe that have yet to recover fully from the financial and economic crises of the late 2000s.