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WILL COHESION POLICY RECOVER FROM COVID?

John Bachtler, Carlos Mendez and Fiona Wishlade

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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 Special European Council (EUCO) on 17-21 July 2020 reached agreement on the European recovery plan and the budget for 2021-27 with the aim of facilitating a "sustainable and resilient recovery" while supporting the green and digital transitions. 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.

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 of concern 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. Key questions are: whether Member States can spend the resources allocated effectively; the extent to which it promotes the anticipated structural reforms; the relationship between the RRF and Cohesion Policy; and whether the governance of the RRF will provide sufficient accountability.

A second concern is whether Member States are able to reach agreement on the application of a rule of law conditionality to expenditure, given the highly polarised positions between different groups of Member States. Lastly, there are ambitious changes proposed for reforming the system of Own Resources to pay for the borrowing: a plastics levy may be introduced quickly but bigger challenges lie ahead for carbon and digital taxes given the implications for international trade and relations.

The budgetary implications of the Council agreement for Cohesion Policy are significant, implying a substantial reduction of 9.2 percent in MFF funds for economic, social and territorial cohesion for 2021-27 compared to 2014-20. 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.

In parallel to the negotiations on the Recovery Plan, Cohesion Policy provided a rapid response to COVID through the CRII and CRII+ packages of administrative flexibilities to facilitate liquidity and spending under the 2014-20 programmes. 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. 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.

Cohesion Policy will provide a stronger response to the fallout of the pandemic in the recovery phase. Most EoRPA countries expect to finalise their 2021-27 PAs and OPs by the end of the year or 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.

The main 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 RFF could lead to a reduction of cohesion resources in the post-2027 period. The proposed geographical targeting of the Just Transition Fund is also questioned.

A more 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, a number of 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 are not undermined.

The impact of the COVID crisis on the Cohesion Policy management arrangements and the programme architecture for 2021-27 is limited. The main expected changes are increased resources to manage the Just Transition Fund, greater digitalisation of management (e-cohesion), and adaptation of monitoring and evaluation to take account of COVID relevant interventions and support accountability. The challenge will be to approve the programmes and spend the allocated funding quickly and effectively to support European recovery and mitigate the effects of the crisis on territorial disparities.

1 INTRODUCTION

The Special European Council on 17-21 July 2020 was significant for reaching agreement on an innovative and substantial Next Generation EU instruments recovery package, chiefly via the Recovery and Resilience Facility, in response to the COVID-19 crisis. The Council also achieved a political agreement on the Multiannual Financial Framework, over two years after the European Commission published its budgetary and policy reform proposals in May 2018. The interinstitutional negotiations are still underway, and the European Parliament is seeking to make changes in several areas. However, notwithstanding some remaining questions on the allocation of REACT-EU, there is now a budgetary framework on which to base planning for Cohesion Policy from the start of 2021.

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.

Policymakers responsible for Cohesion Policy face several difficult tasks in parallel. One is bringing the 2014-20 programmes to a successful conclusion, in many cases adjusted through CRII/CRII+ in response to the crisis. Although most resources have generally been committed, spending rates are as low as 35-40 percent in countries such as Spain, Greece, Croatia and Romania. A second task is to complete the programming for 2021-27 in the new circumstances of the COVID-19 crisis, and with potential competition for 'good projects' from the Recovery & Resilience Facility. Lastly, policymakers need to programme the use of REACT-EU intended as a 'bridge' between the two programme periods.

This paper examines the current state-of-play of Cohesion Policy from political, budgetary and policy perspectives. It reviews the outcome of the Special European Council in July 2020 and the outstanding challenges and concerns. It then examines the budgetary implications of the political agreement for Cohesion Policy allocations in 2021-27 relative to current allocations and other instruments in the Recovery Plan. The next section reviews experiences with the implementation of the emergency measures introduced under CRII and CRII+, developments in the negotiations on the Cohesion Policy recovery package, and national perspectives on the implications of the pandemic for the design and implementation of the 2021-27 programmes. The final section presents the key conclusions.

2 EUROPEAN RECOVERY PLAN – THE NEW EU BUDGET

2.1 Special European Council, July 2020

After four days of sometimes fractious debate, the Special European Council (EUCO) on 17-21 July 2020 reached agreement on the European recovery plan and the budget for 2021-27. This was not pre-ordained. Although the previous Special European Council meeting on 19 June 2020 had indicated 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.

The June EUCO had indicated Member State divisions between 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 dividing Member State positions were 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.[1]

Preparatory groundwork was done by the EUCO President, Charles Michel, with a new Negotiating Box (NB) on 10 July 2020.[2] This proposed an MFF of €1,074 billion (reduced by c. €20 billion from the ceiling in his February Negotiating Box[3]), the retention of rebates for Austria, Denmark, Germany, the Netherlands and Sweden, a recovery package of €750 billion (with the same balance of loans, guarantees and grants), front-loading of investment under the Recovery & Resilience Facility, and governance mechanisms to ensure a closer link between national recovery and resilience plans and the European Semester process. Intensive bilateral and multilateral engagement among Member States leaders in the first half of July also sought to find common ground, but as was subsequently noted,[4] "it took almost five days and numerous group, bilateral and plenary sessions to reach the political agreement, making this meeting of the European Council the second longest to date."

The EUCO conclusions presented the agreed package as mobilising major public and private investment, to facilitate "a sustainable and resilient recovery, creating jobs and repairing the immediate damage caused by the COVID-19 pandemic whilst supporting the Union's green and digital priorities".[5] Immediately after the meeting, the EUCO President, Charles Michel, claimed that:[6]

"this agreement will be seen as a pivotal moment in Europe's journey, but it will also launch us into the future"

The rhetoric was at least partly justified given the scale of package, the new borrowing powers, and the conditionalities associated with the expenditure – especially the linkage to structural

reforms and the minimum spending requirements related to climate change. Despite the national differences clearly displayed during the marathon negotiations, and the reduction in size of some funding elements, the agreement sent an important signal about the EU's commitment to supporting recovery. It allowed countries to bring forward spending, also contributed to stabilisation of financial markets and improved market access to borrowing, especially for highly indebted countries such as Greece, Italy and Portugal.[7]

There are, however, several unresolved issues, and much will depend on the ability of the EU to deliver on the high expectations.

2.2 Next Generation EU

The EUCO conclusions were in two main parts. The first was agreement on **the Next Generation EU (NGEU)** recovery plan. This authorised the European Commission to borrow up to €750 billion of funds on the capital markets until 2026 on behalf of the EU. These funds can be used for EU programmes addressing the consequences of the COVID-19 crisis, with up to €360 billion allocated in the form of loans and up to €390 billion in grants. Repayment would be up to 31 December 2058, with a temporary increase in the Own Resources ceiling by 0.6 percentage points to cover EU liabilities of the Union resulting from its borrowing.

At the heart of the NGEU is the Recovery and Resilience Facility (RRF), under which the substantial part of the recovery package will need to be committed by Member States over the next three years, 70 percent in 2021-22 and 30 percent in 2023. Importantly, the funding will need to be accompanied by structural reforms, set out in national recovery and resilience plans which will need to combine the reform and investment agenda of each Member State concerned over the 2021-23 period.

Although the overall amount allocated to NGEU is the same as the proposal of the European Commission in May 2020,[8] the negotiations saw considerable changes in the allocations to EU programmes (Table 1). Much more was allocated to the Recovery and Resilience Facility, at the expense of the NGEU Pillar 2 (kick-starting the economy and helping private investment) and Pillar 3 (learning lessons from the crisis), with the proposed addition of allocations for several programmes being cut entirely (e.g. Solvency Support Investment, development and humanitarian support) or reduced significantly (rural development, Just Transition Fund, Horizon Europe). There was also a major shift in the balance between loans and grants, with the allocations via loans being increased by over 40 percent and those via grants being reduced by more than a fifth. National recovery and resilience plans will need to make much more us of loans than originally proposed by the Commission. Lastly, the allocation of spending to Member States under the recovery instruments shifted away from the Commission's proposed preference for low-income countries to give greater weight to larger countries and those affected more by the COVID-19 pandemic, especially Germany, France and (to a lesser extent) Italy.[9]

In its response to the EUCO conclusions, the European Parliament has been highly critical of the reduced allocation to 'flagship programmes' in NGEU and MFF, and is seeking 'targeted reinforcements' of these programmes as part of the inter-institutional negotiations.[10]

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*

The EU agreement stresses that NGEU borrowing facility is an "exceptional response" to "temporary but extreme circumstances", and that the provisions are "clearly limited in size, duration and scope".[11] Commitments made to EU programmes with NGEU funding will need to be made by 31 December 2023 and payments by 31 December 2026. Nevertheless, an important precedent has clearly been set, and borrowing on the capital markets is now a financing tool that would be considered in any future crises. From a legal perspective, it has been referred to as 'breaking a taboo' on the former prohibition of debt financing of EU expenditure and the first step on giving the EU a permanent fiscal capacity.[12]

2.3 Multiannual Financial Framework 2021-2027

The second part of the package agreed by EUCO concerns the Multiannual Financial Framework 2021-27. A total of €1,074.3 billion for commitment appropriations was agreed (see Table 2). This is 1.9 percent less than the total proposed by EUCO President Michel at the Special EUCO in February 2020, but with significant differences in the allocations to budget headings (see Table 2): significant reductions in allocations of almost 12 percent for Heading

1 (Single Market, Innovation & Digital) and almost eight percent of Heading 5 (Security and Defence), but increases for the sub-heading of Economic, social and territorial cohesion (+2.2 percent) and Heading 4 (Migration and Border Management). The cuts in Headings 1, 4 and 5 are much steeper compared to the Commission's original proposals in May 2018 but each of these areas will see major additional resources compared to the 2014-20 period.

Overall, the Commission's original objective of shifting resources away from Cohesion Policy and the Common Agricultural Policy towards so-called 'newer' policy areas – innovation, migration, security and international development – has been fulfilled in the EUCO agreement in July. Both policy areas were, however, spared further cuts during the EUCO negotiations, and sizeable additional resources were committed to Cohesion through the REACT-EU allocation under NGEU.

The European Parliament's position[13] is that it "does not accept….the political agreement on the 2021-2027 MFF as it stands". It is particularly exercised by the cuts made to the Commission's proposals for spending on programmes for health and research, digital transformation, the transition of carbon-dependent regions, asylum, migration and border management. Having anticipated that some of the MFF reductions would be made up by NGEU (which were proposed by the Commission but then cut by the Council), the Parliament has warned that "all 40 EU programmes financed under the MFF will have to be agreed by Parliament as co-legislator".

A key objective of the spending package is that it helps "transform the EU through its major policies, particularly the European Green Deal, the digital revolution and resilience." Substantial ring-fencing of expenditure on climate action is required under the MFF and NGEU financed programmes to help the EU meet its goal of climate neutrality by 2050. An additional new target is the Commission's proposed 2030 Climate Target Plan raising the EU's goal of greenhouse gas emission reductions from 40 to 55 percent below 1990 levels by 2030.[14]

The EUCO conclusions state that 30 percent of expenditure is expected to be devoted to climate action overall, with targets varying by budget heading and sector (e.g. a target of 40 percent has been set for CAP expenditure in the EUCO conclusions). In her State of the European Union (SOTEU) speech,[15] President Ursula von der Leyen announced that 37 percent of NGEU expenditure would be spent on Green Deal objectives, including investment "in lighthouse European projects with the biggest impact: hydrogen, renovation and 1 million electric charging points." President von der Leyen unexpectedly also specified a minimum level of expenditure on 'digital Europe' with a commitment to "invest 20% of NextGenerationEU on digital".

Table 2: Negotiations on the 2021-2027 MFF – evolution of proposals and comparison with the EUCO Agreement of 21 July 2020 (by heading)

	Proposals 2021-2027					Comparisons with European Council (Jul 2020)							
Headings (as agreed by the European Council) €mill 2018 prices	MFF 2014-2020 (EU-27, inc EDF)*	European Commission May 2018	Ch. Michel February 2020	European Commission May 2020	European Council July 2020	European Council vs European Commission May 2020		European Council vs Ch. Michel February 2020		European Council vs European Commission May 2018		European Council vs 2014-2020 MFF	
I.Single Market, Innovation and Digital	121,635	166,303	149,502	140,656	132,781	-7,875	-5.6%	-16,721	-11.2%	-33,522	-20.2%	+11,146	+9.16%
II.Cohesion, Resilience and Values	391,692	391,974	380,056	374,460	377,768	+3,308	0.9%	-2,288	-0.6%	-14,206	-3.6%	-13,924	-3.55%
Of which: Economic, social and territorial cohesion	373,219	330,642	323,181	323,181	330,235.0	+7,054	+2.18%	+7,054	+2.2%	-407	-0.1%	-42,984	-11.52%
III.Natural Resources and Environment	399,595	336,623	354,082	357,032	356,374	-658	-0.2%	+2,292	+0.6%	+19,751	+5.9%	-43,221	-10.82%
Of which: Market related exp. & direct payments)	291,485	254,247	256,747	258,251	258,594	+343	+0.1%	+1,847	+0.7%	+4,347	+1.7%	-32,891	-11.28%
IV.Migration and Border Management	8,940	30,829	21,890	31,122	22,671	-8,451	-27.2%	+781	+3.6%	-8,158	-26.5%	+13,731	+153.59%
V. Security and Defence	4,583	24,323	14,290	19,423	13,185	-6,238	-32.1%	-1,105	-7.7%	-11,138	-45.8%	+8,602	+187.69%
VI. Neighbourhood and the World	97,137	108,929	101,905	102,705	98,419	-4,286	-4.2%	-3,486	-3.4%	-10,510	-9.6%	+1,282	+1.32%
VII.European Public Administration	70,791	75,602	73,102	74,602	73,102	-1,500	-2.0%	+0	+0.0%	-2,500	-3.3%	+2,311	+3.26%
TOTAL COMMITMENT APPROPRIATIONS	1,094,371	1,134,583	1,094,827	1,100,000	1,074,300	-25,700	-2.3%	-20,527	-1.9%	-60,283	-5.3%	-20,071	-1.83%

***Notes**: *For the 2014-2020 MFF, all amounts are estimates excluding the UK, including the EDF, taking into account the adopted or pending amending budget and the 2020 'bridge solution' (+11.1 billion, rejected by the Europan Council) **In its negotiating position of 14 November 2018, the European Parliament presented the total allocation for the European Agricultural Fund for Rural Development amounting to €383,255 million.*

***Sources**: Secretariat of the BUDG Committee, European Parliament, July 2020: European Commission COM (2020) 443 Final, European Council EUCO 10/20, 21 July 2020.*

2.4 Challenges of the package

As noted above, there are several important issues of concern that were not fully resolved in the Council agreement or are subject to interpretation. These include the implementation of NGEU through the Recovery and Resilience Facility, the application of the rule of law in funding allocations, and the future of Own Resources.

2.4.1 Implementation of NGEU

The credibility of the recovery package is the ability of the EU to achieve the ambitious objectives agreed. On this point, there is significant concern about the ability of the EU to deliver on the expectations associated with the **Recovery and Resilience Facility** implemented through National Recovery and Resilience Plans (NRRPs).

(a) **Absorption.** The most obvious concern is the ability of Member States to spend the very substantial resources under the RRF allocated to them in an effective and timely manner. The Commission is encouraging Member States to begin submitting preliminary draft national recovery and resilience plans from 15 October 2020, with a deadline of 30 April 2021[16]. This tight timetable allows limited time for rigorous planning. The requirement for spending to be concentrated in the first two years, and minimum levels of spend on green and digital projects (37 and 20 percent respectively) creates further pressures, especially as the Commission is encouraging 'flagship' projects which are potentially complex and may have long and planning phases. The broad definition of both investment and reforms in the Commission guidance is likely to produce widely differing interpretation of appropriate expenditure (for example, Commission officials have cited concerns about Member State proposals to allocate funding to tax cuts and operating costs).

(b) **Reforms**. An important key to the political agreement on additional spending, especially among the so-called 'frugals', is that investment will be tied to reforms. Indeed commentators have argued that:[17] "the value of the RRF will not be the specific projects it finances, but the extent to which it fosters structural reforms."

National recovery and resilience plans are expected to set out a 'reform and investment agenda' with NRPPs and National Reform Plans submitted as a 'single integrated document'. The Commission guidance notes that:

> *"The plans should demonstrate how the investments and reforms would effectively address challenges identified in the context of the European Semester, particularly the country-specific recommendations adopted by the Council. The plans should also include measures aimed at addressing the challenges faced by the Member States regarding their green and digital transitions."*

Built into the process is the potential politicisation of plan implementation. Progress towards achieving reforms and investments is intended to be measurable on the basis of 'clear, realistic, well defined, verifiable' targets and milestones. The Economic and Financial Committee will have a role in judging the Commission's assessment of these milestones and targets, with Member States having the scope to request referral to a European Council.

The reform drive goes beyond the RRF. The EUCO conclusions also state that "Cohesion Policy will play an increasingly important role in supporting the ongoing economic reform process by Member States by strengthening the link to the European Semester."

(c) **Coherence.** The relationship between the RRF and Cohesion Policy is unclear. On the one hand, Commission guidance requires NRRPs to show how they are promoting economic, social and territorial cohesion, as well as strengthening economic and social resilience, mitigating the social and economic impact of the crisis and supporting the green and digital transitions. Specifically, the guidance[18] states that "Member States can also outline how the plan is expected to mitigate disparities and support cohesion" (p.4) and "promoting social, economic and territorial cohesion" … [is]…"explicitly in the scope and objectives of the Proposal" (p.13). This language is also used in the explanation of the impacts of NRRP investments expected: "the resilience and recovery plans should identify relevant indicators to monitor the contribution of the Facility to the reduction of disparities, including at territorial level" (p.41).

On the other hand, DG Regio officials are explicit that the RRF should not be regarded as another Cohesion Policy instrument and are discouraging Member States from focusing expenditure territorially on the less-developed regions. There is clearly serious concern that the pressure to spend in the early part of the period will involve RRF funds being used for Cohesion Policy projects, causing problems for the timely commitment of ERDF and CF funding in particular.

The latest data for ESIF spending in 2014-20 show that 93 percent has been committed (decided) but only 43 percent has so far been spent.[19] The RRF will be implemented at a time when Member States will be under pressure to spend remaining commitments under the 2014-20 programmes while launching the 2021-27 programmes.

There are clear overlaps in the kind of investment envisaged under the RRF and Cohesion Policy (e.g. business environment, research and innovation, employment, skills), and the guidance is clearly concerned about avoiding double-funding while promoting synergies. It encourages the use of the same management and control systems used for Cohesion Policy, but there is no parallel to the Cohesion Policy performance framework, with the proposed approach to inputs, outputs, results and impacts using the pre-2014 hierarchy of indicators.

(d) **Governance and accountability.** As noted above, the recovery package cut the proposed allocations to major EU policy programmes, with much of the funding being challenged through the RRF - to be determined by Member States. The Commission guidance notes that it will be the responsibility of Member States to ensure "strong coordination in the management of the different instruments at national level" and that Member States have the flexibility to determine the investments chosen for support. Although it is open to Member States to manage the RRF via national or regional programmes, Commission officials are encouraging Member States to use national programmes as much as possible.

The governance concerns are four-fold. First, as the European Parliament has noted in its critical resolution on the EUC agreement, the governance of the RRF "moves away from the Community method and endorses an intergovernmental approach"… [which]… will only complicate the functioning of the RRF and weaken its legitimacy.[20]

Second, there is no clear role for regional and local authorities in determining how the RRF is used. This is partly understandable given that it has been national policy measures that are being primarily used for economic recovery in many Member States but it fails to take account of the region-specific nature of recovery problems likely to emerge. The Committee of the Regions, for example, argues that local and regional authorities have important policy responsibilities, and account for significant investment, in achieving the objectives of the RRF including the green and digital transitions. [21]

Third, previous experience with EU funding is that fast spending is not always associated with regularity in spending. The European Court of Auditors (ECA) has already signalled its concern:[22] "monitoring the facility's performance may be impaired by its broad and high-level objectives, in combination with shortcomings in the reporting system". The ECA has recommending reconsidering the frequency and timing of reporting and evaluation, and defining suitable indicators for the overall achievements of the RRF. As commentators have noted[23] "it is difficult to see a marked improvement in terms of quality or financial control on the Next Generation EU".

Lastly, effective use of the RRF depends on coherence between the EU funding and national policies. The European Central Bank has noted that, in addition to ensuring that RRF allocations are used for 'productive spending' and are accompanied by growth-enhancing forms', the fiscal support provided through the NGEU should not being counteracted by "the premature withdrawal of fiscal support funded at the national level[24]."

2.4.2 Rule of law

A critical unresolved issue is whether and how a rule of law conditionality should be applied to expenditure. This was considered relatively late in the Council meeting and, perhaps partly due to exhaustion among national leaders, the conclusions essentially postponed making concrete decisions:[25]

> "The European Council underlines the importance of the respect of the rule of law…..a regime of conditionality to protect the budget and Next Generation EU will be introduced. In this context, the Commission will propose measures in case of breaches for adoption by the Council by qualified majority. The European Council will revert rapidly to the matter."

There are significant differences between what some Member States are advocating (e.g. Netherlands, Sweden, Finland) and what countries such as Poland and Hungary are prepared to accept. Germany has committed to launching a 'new peer review mechanism during its Presidency based on the annual Rule of Law Report due to be published shortly. Compromise drafts being prepared by the German Presidency are shifting the focus of the regulatory response away 'generalised deficiencies' to 'breaches of the principles' of the rule, focusing more the effects of breaches on EU funds than the risks of these. [26]

The issue has direct implications for funding decisions to be made in the coming months. The Commission guidance states that national reforms considered for recovery strategies include "the effectiveness of justice systems and in a broader sense respect of the Rule of Law", a principle also to be applied for demonstrating effective implementation for investments.[27]

2.4.3 Own Resources

There are important changes foreseen for the **system of Own Resources**.[28] The ceiling for own resources will rise from 1.20 to 1.40 percent of EU GNI, with a further temporary increase of 0.6 percent until December 2058 (at the latest) by a further 0.60 % to cover borrowing for the NGEU. The EUCO agreement anticipates reform of the own resources system with new resources being introduced. This would begin with a new own resource based on non-recycled plastic waste, to be introduced from the start of 2021. In the first half of 2021, the Commission is also mandated to out forward proposals for introducing (from the start of 2023) a carbon border adjustment mechanism and a digital levy, as well as to develop future proposals for a revised Emissions Trading Scheme, possibly extending it to aviation and maritime, and other potential own resources such as a Financial Transaction Tax.

The reform of Own Resources set out in a draft Council proposal,[29] has been backed by the European Parliament in a fast-tracked vote on its legislative opinion,[30] albeit the Parliament favours introducing a Common Consolidated Tax Base by 2026 also and abolishing all rebates. The Own Resources reforms now need to be ratified by all EU27 Member States. If this is

successful, the plastic levy will go ahead quickly but bigger challenges lie ahead for any carbon and digital taxes given the implications for interntational trade and relations.[31]

3 BUDGETARY IMPLICATIONS FOR COHESION POLICY

3.1 Outcomes from the Council negotiations

The Council conclusions of 21 July 2020 have several outcomes with budgetary implications for Cohesion Policy.[32]

First, under the agreement on the 2021-27 Multiannual Financial Framework, some €330.235 billion was allocated to sub-heading 2a 'Economic, social and territorial cohesion'. This is marginally below the Commission's 2018 proposals for €330.642 billion[33] (but up on its May 2020 proposals for €323.181 billion).[34]

Second, under Next Generation EU (NGEU) the Council agreed €47.5 billion under REACT-EU effectively to boost funding under Cohesion Policy programmes in 2021-22 in response to the COVID-19 crisis. This is a reduction from the Commission's May 2020 proposals for €55 billion, of which €5 billion under MFF 2014-20. The reduction is opposed by the European Parliament.[35]

Third, although not under Heading 2 *Cohesion and values*, but with territorial implications nonetheless, are 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*. These had been increased in the Commission's May 2020 proposals for NGEU, but these did not survive the Council negotiations intact. The total amounts (under NGEU and MFF 2021) are €85.35 billion for EAFRD and €17.5 billion for JTF. The European Parliament is also opposed to the reduction in the JFT.[36]

Last, and part of the wider context, the Council agreed to establish a Recovery and Resilience Facility under NGEU comprising grants of €312.5 billion and loans of €360 billion.

Against this background, this section looks at Cohesion Policy allocations from three perspectives. First, what happened to the Commission's original proposals for Cohesion Policy as a consequence of the negotiations? Second, how do allocations for 2021-27 under the Council conclusions compare with those for 2014-20? Third, what is the relative importance of Cohesion Policy in the context of other proposed allocations under MFF 2021-27 and NGEU?

3.2 Cohesion Policy allocations post 2020 – impact of the negotiations

In May 2018, the Commission published Cohesion Policy allocations by Member State along with its proposals for a new Common Provisions Regulation.[37] This was a departure from past practice which had been to publish the allocation *methodology*, but not the *outcome*. Such transparency did not prevent 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;[38] further adjustments were proposed by the President of the European Council Charles Michel in February 2020,[39] but consensus could not be reached. The Commission's May 2020 proposals used the Michel proposed Cohesion budget total (€323,181 million) but did not present either any changes to the methodology or to the national allocations in the revised CPR.

The revised MFF proposals involved a 2.3 percent *reduction* of funding to economic, social and territorial cohesion – almost €7.5 billion. However, the EUCO conclusions involved only a modest cut – some €407 million.

Table 3: 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 May 2018 proposals	45597	46091	46650	47212	47776	48348	48968	**330642**
MFF 2021-27 May 2020 proposals	44430	44961	45491	46119	46751	47384	48045	**323181**
% change between proposals	-2.6	-2.5	-2.5	-2.3	-2.1	-2.0	-1.9	**-2.3**
EUCO conclusions	**45411**	**45951**	**46493**	**47130**	**47770**	**48414**	**49066**	**330235**
% change from May 2018 proposal to EUCO	-0.4	-0.3	-0.3	-0.2	0.0	0.1	0.2	**-0.1**

Source: EPRC calculations from COM(2018)322, COM(2020)433 and EUCO 10/20.

During the negotiations, several changes were proposed to the original methodology for allocating Cohesion monies; however, the overall architecture was not challenged and the methodological changes agreed in the EUCO conclusions are relatively small, (see Annex I for detail).

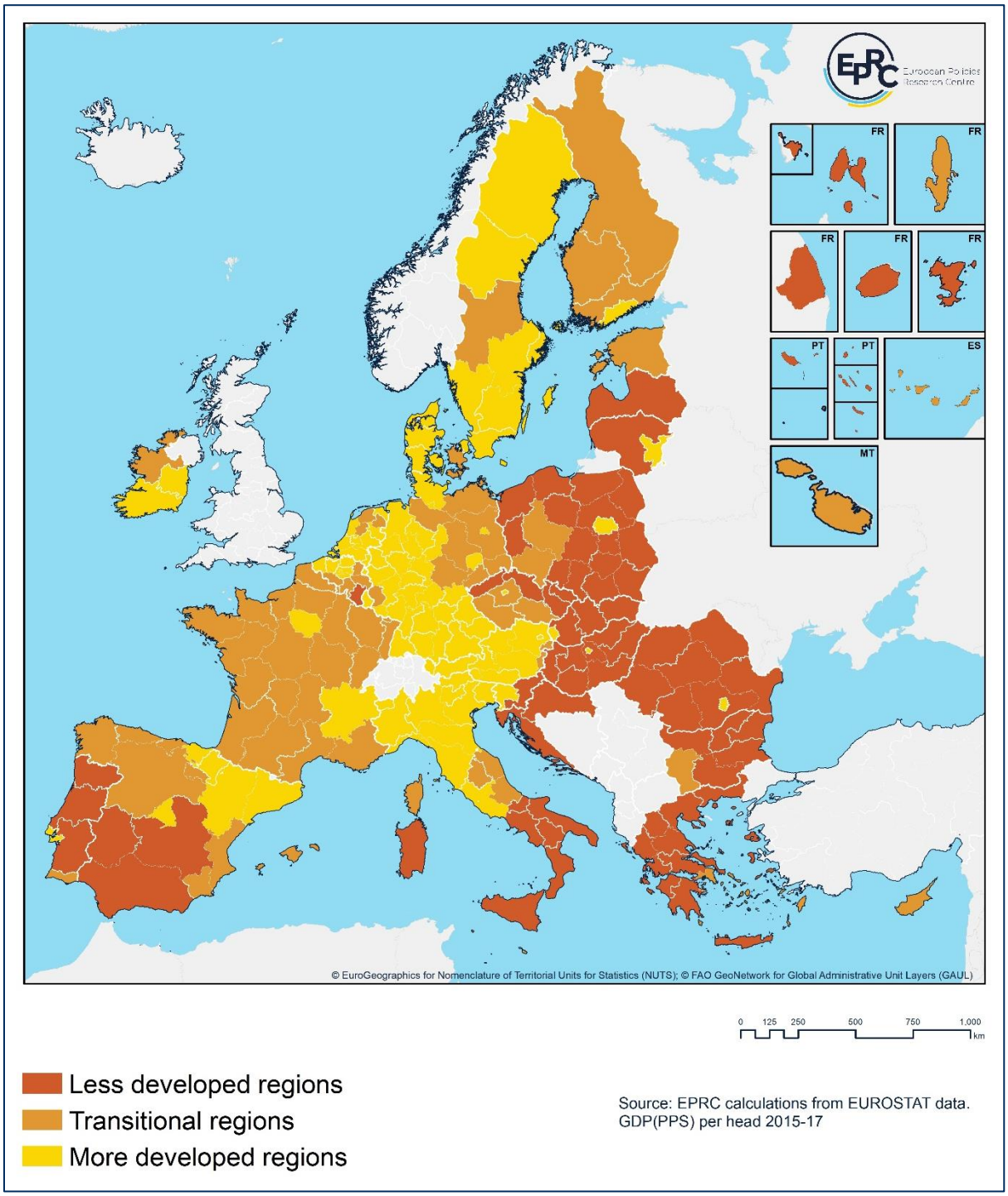
There are, however, **changes to eligibility** arising from use of 2015-17 GDP data (see Map 1 and Table 43); specifically, LDR coverage increases and MDR coverage fall as a consequence of using updated data.

Table 4: Changes in spatial coverage

	LDR	TR	MDR
COM 2018 proposals	27.6	25.3	47.1
EUCO conclusions	28.1	25.2	46.7

Source: EPRC calculations form Eurostat data.

Map 1: Cohesion Policy status 2021-27 (EU27)



Source: EPRC

Geographical eligibility aside, the main changes were:

- a cut from €18 to €15.2 per annum in the per capita allocation to establish the **MDR 'envelope'**, also affecting Transition Regions for which the MDR per capita amount is the theoretical minimum;
- **capping as a percentage of GDP was tightened**, and made more complex;

- **capping as a percent of 2014-20 allocation was lowered** and made even more stringent for more prosperous countries.

As Annex I shows, there is scarcely any difference between the methodology in the Michel proposals tabled in February and the EUCO conclusions. The differences in outcomes (some €7.5 billion) are largely explained by the 'additional allocation provisions' shown in Box 1.

Box 1: Additional provisions in EUCO 10/20:

- Safety net is increased to 85 percent of 2014-20 allocation where more than one-third of the population is in NUTS 2 with GDP per head less than 50 percent of the EU average (Bulgaria)
- Where population has declined by more than 1 percent per annum between 2007-9 and 2016-18, allocation equal to the fall in population multiplied by €500 (Latvia and Lithuania)
- An additional €400 million For less developed regions in Member State which have only benefited from one period of Cohesion Policy (Croatia)
- To recognise the challenges of island nations and remoteness:
    - Malta: €100 million
    - Cyprus: €100 million
    - northern Finland: €100 million
- To boost competitiveness, growth and jobs in certain Member States:
    - Belgium: €200 million (TR)
    - Bulgaria: €200 million (LDR)
    - Czechia: €1,550 million (CF)
    - Cyprus: €100 million
    - Estonia: €50 million
    - Germany: €650 million (TR)
    - Malta: €50 million
    - Poland: €600 million (LDR)
    - Portugal: €300 million (TR)
    - Slovenia: €350 million (MDR)

Source: EPRC from EUCO 10/20.

The overall thrust of both the Finnish and Michel proposals had been to trim the Commission's proposed 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. The EUCO conclusions took the Michel proposals further and increased LDR and TR allocations still more at the expense of MDRs (see Table 5).

Table 5: Evolution of Cohesion Policy budgetary proposals

	COM (2018) 375	FI NegoBox	Michel	EUCO	COM to FI NegoBox	FI NegoBox to Michel	COM to Michel	COM to EUCO
Economic, social & territorial cohesion, of which	**330,624**	**323,181**	**323,181**	**330,235**	**-2.3%**	**0.0%**	**-2.3%**	**-0.1%**
Investment for jobs and growth, of which:	***322,194***	***313,100***	***315,300***	***322,285***	***-2.8%***	***0.7%***	***-2.1%***	***0.03%***
Less developed regions	198,622	195,600	200,000	202,299	-1.5%	2.3%	0.7%	1.9%
Transition regions	45,936	42,200	44,900	47,789	-8.1%	6.4%	-2.3%	4.0%
More developed regions	34,843	34,200	27,800	27,212	-1.8%	-18.7%	-20.2%	-21.9%
Cohesion Fund	41,349	39,700	40,700	42,556	-4.0%	2.5%	-1.6%	2.9%
OMR & sparsely-populated	1,447	1,400	1,400	1,928	-3.6%	0.0%	-3.3%	33.2%
Interregional innovation			500	500	~	~	~	~
European territorial cooperation	***8,430***	***7,930***	***7,930***	***7,950***	***-5.9%***	***0.0%***	***-5.9%***	***-5.7%***

Source: COM(2018)375; Finnish Presidency Negotiating Box; [40] Council Presidency proposals;[41] and EUCO 10/20.[42]

Changes in eligibility and shifts in allocations between types of eligible area also have an impact at Member State level (see Table 6). This shows that five Member States (SE, AT, NL, DK, LU) lost around one-fifth of the allocation that the Commission has originally proposed. Malta and Hungary gained most through the negotiations in percentage terms. Hungary also gained in absolute terms, as did Poland; by contrast, Spain, Italy and France all lost significantly. Of key importance, however, as discussed in section 3.3 below, only four countries gained in the EUCO conclusions compared to 2014-21; and only Bulgaria increased its allocation in both the Commission proposals and in the EUCO conclusions.

Table 6: Changes in national allocations resulting from MFF negotiations

	2021-27 COM Proposals	EUCO outcome	Change (€m)	Change %
EU27	**330094**	**327439**	**-2665**	**-0.8**
SE	2141	1703	-438	-20.5
AT	1280	1018	-262	-20.5
NL	1442	1147	-295	-20.4
DK	574	457	-117	-20.3
LU	65	52	-13	-19.9
FI	1605	1466	-139	-8.6
HR	8768	8042	-726	-8.3
ES	34005	31388	-2617	-7.7
FR	16022	14937	-1085	-6.8
SI	3073	2909	-164	-5.3
LV	4262	4085	-177	-4.2
SK	11780	11379	-401	-3.4
IT	38564	37341	-1223	-3.2
CY	877	851	-26	-3.0
IE	1088	1060	-28	-2.6
BE	2444	2386	-58	-2.4
RO	27204	26806	-398	-1.5
GR	19239	18960	-279	-1.5
PT	21172	20919	-253	-1.2
BG	8930	8998	68	0.8
EE	2915	2951	36	1.2
PL	64937	66422	1485	2.3
LT	5642	5796	154	2.7
DE	15688	16366	678	4.3
CZ	17848	19308	1460	8.2
HU	17934	19949	2015	11.2
MT	597	743	146	24.5

Note: These figures exclude non pre-allocated amounts, such as transnational cooperation, European Urban Initiative.
Source: EPRC calculations from COM(2018)322 and European Commission data.[43]

3.3 Cohesion allocations for 2014-20 and 2021-27 compared

The second dimension to consider is how these allocations compare with the current period. Excluding the United Kingdom, and again taking account only of national allocations, total allocations for 2014-20 amounted to €363,751 million; the equivalent figure from the EUCO conclusions is €327,439 million, a reduction of just over nine percent.

This overall reduction translates into a **significant reduction for most Member States** (see Table 7):

- in percentage terms, 17 countries see a reduction of more than 10 percent in Cohesion Policy receipts under the EUCO conclusions, compared with outcomes for 2014-20; and
- in absolute terms, Poland is by far the biggest loser in comparisons between the two periods – the reduction amounts to over €17 billion.

Just four countries stand to receive higher Cohesion Policy allocations in 2021-27 compared to 2014-20 – Italy, Romania, Greece and Bulgaria.

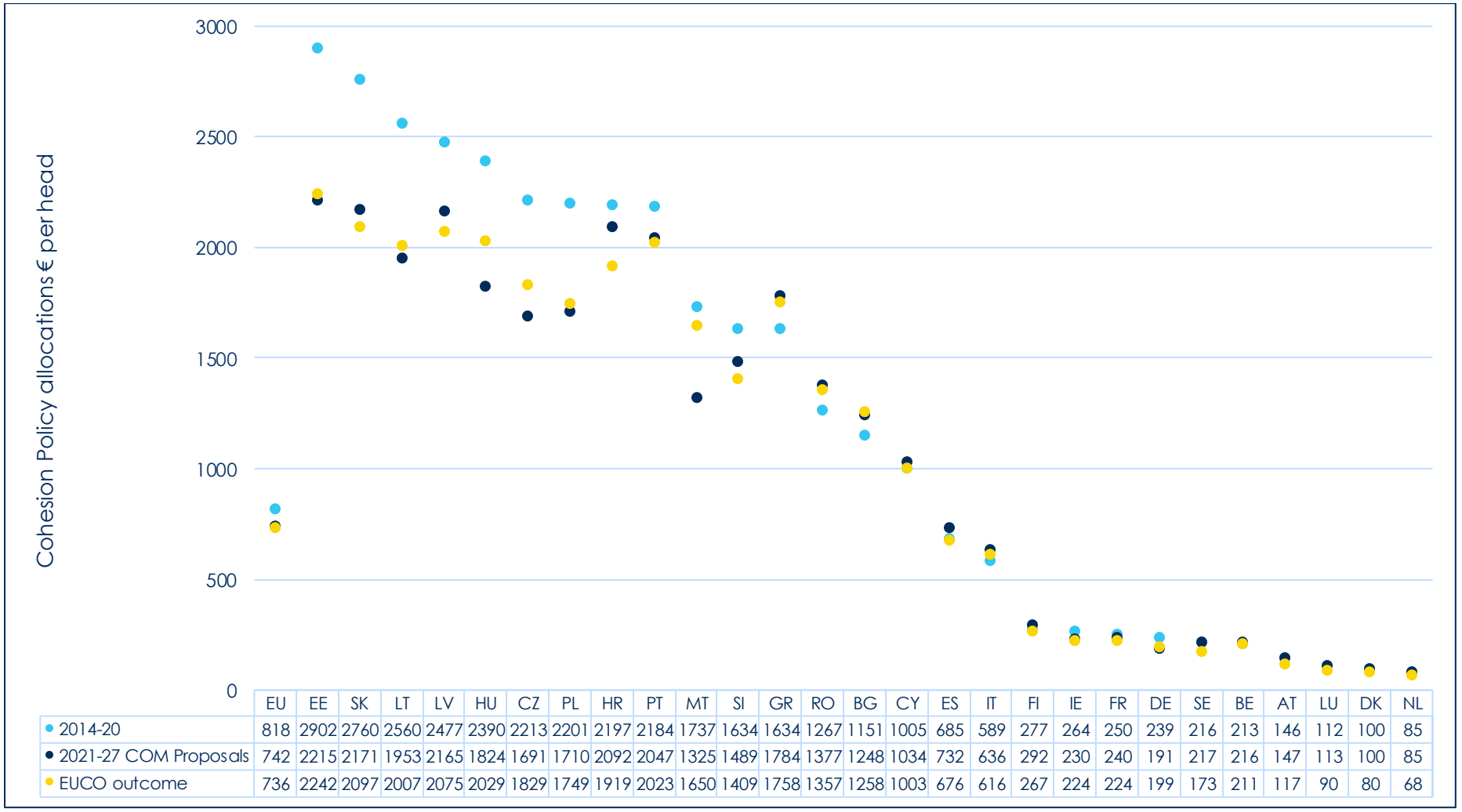
Table 7: Cohesion Policy allocations in 2014-20 and 2021-27

	2014-20	EUCO outcome	Change(€m)	Change%
EU27	**363,751**	**327439**	**-33516**	**-9.2**
SK	14,978	11379	-3599	-24.0
EE	3,819	2951	-868	-22.7
LT	7,394	5796	-1598	-21.6
PL	83,571	66422	-17149	-20.5
SE	2,131	1703	-428	-20.1
NL	1,435	1147	-288	-20.1
AT	1,274	1018	-256	-20.1
DK	571	457	-114	-20.0
LU	65	52	-13	-19.5
CZ	23,354	19308	-4046	-17.3
DE	19,670	16366	-3304	-16.8
LV	4,877	4085	-792	-16.2
IE	1,250	1060	-190	-15.2
HU	23,497	19949	-3548	-15.1
SI	3,372	2909	-463	-13.7
HR	9,206	8042	-1164	-12.6
FR	16,693	14937	-1756	-10.5
PT	22,590	20919	-1671	-7.4
MT	782	743	-39	-5.0
FI	1,520	1466	-54	-3.6
ES	31,818	31388	-430	-1.4
BE	2,412	2386	-26	-1.1
CY	853	851	-2	-0.2
IT	35,727	37341	1614	4.5
RO	25,040	26806	1766	7.1
GR	17,616	18960	1344	7.6
BG	8,234	8998	764	9.3

Source: EPRC calculations from Implementing decision 2016/1941 (amending Decision 2014/190), using standard Cohesion Policy deflator and European Commission data.[44] The totals concern only national allocations.

These data are difficult to compare across countries. However, Figure 1 shows countries ranked by their per capita allocations in 2014-20, together with the corresponding amount under the Commission proposals and EUCO conclusions for 2021-27. This shows not only how widely Cohesion Policy allocations differ between countries (from almost €3000 per head over the period 2014-20 in Estonia, to just €85 in the Netherlands), but also the scale of the reduction for some countries.

Figure 1: Per capita allocations – 2014-20, Commission proposals and EUCO outcomes for 2021-27



	EU	EE	SK	LT	LV	HU	CZ	PL	HR	PT	MT	SI	GR	RO	BG	CY	ES	IT	FI	IE	FR	DE	SE	BE	AT	LU	DK	NL
2014-20	818	2902	2760	2560	2477	2390	2213	2201	2197	2184	1737	1634	1634	1267	1151	1005	685	589	277	264	250	239	216	213	146	112	100	85
2021-27 COM Proposals	742	2215	2171	1953	2165	1824	1691	1710	2092	2047	1325	1489	1784	1377	1248	1034	732	636	292	230	240	191	217	216	147	113	100	85
EUCO outcome	736	2242	2097	2007	2075	2029	1829	1749	1919	2023	1650	1409	1758	1357	1258	1003	676	616	267	224	224	199	173	211	117	90	80	68

Source: EPRC calculations EPRC calculations from Implementing decision 2016/1941 (amending Decision 2014/190), using standard Cohesion Policy deflator, COM(2018)322 and European Commission data.[45]

3.4 How important are Cohesion Policy allocations in the COVID-19 context?

This last section considers the relative importance of Cohesion Policy among pre-allocated funds under the MFF and NGEU. The focus of this paper is on Cohesion Policy, but several other sources of funds are deployed or expected to be deployed through similar or the same mechanisms. Collectively, these other sources – Recovery and Resilience Facility (RRF) grants, EAFRD, REACT-EU and the Just Transition Fund – amount to over €460 billion, substantially more than Cohesion Policy at €327 billion.

The scale of RRF grants rivals Cohesion Policy, but the balance of distribution differs: Cohesion countries[46] account for 70 percent of Cohesion Policy allocations, but just 47 percent of RRF grants. Accordingly, more than half of the RRF is allocated to countries over the Cohesion Fund qualifying threshold.

Table 8: 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;*[47] 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.*

At Member State level, with the exception of Cyprus, in Cohesion countries, Cohesion Policy is more significant than RRF grants; conversely, for more prosperous countries, RRF grants are more significant, though in three – Finland, Ireland and Austria – EAFRD is more significant than either Cohesion Policy or RRF grants. Moreover, as both RRF grants and REACT-EU are frontloaded into 2021-22/3, the intensity of funding is set to be higher in countries where NGEU funded measures are more important.

Aside from the relative scale of the various resources, an important issue is their origin. The MFF and NGEU were packaged together in the EUCO conclusions, but NGEU resources are 'externally assigned revenues' which means that the European Parliament is in principle excluded from the decision-making process.

4 THE COHESION POLICY RESPONSE TO COVID

Cohesion Policy has been a cornerstone of the European response to the COVID crisis by providing a rapid investment response and through the planned mobilisation of additional resources under the European Recovery Plan. This section reviews experiences with the implementation of the emergency measures introduced under CRII and CRII+, developments in the negotiations on the Cohesion Policy recovery package, and national perspectives on the design and implementation of the new funding and programmes for 2021-27.

4.1 The First Wave: Coronavirus Investment Response Initiatives

The largest investment component to the Commission's initial crisis response has been through Cohesion Policy. By the start of April 2020, 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. The CRII proposals entered into force on 1 April 2020 and provided liquidity to Member State budgets by delaying the repayment of pre-financing and making Coronavirus crisis-related expenditure eligible. The Coronavirus Response Investment Initiative Plus (CRII+) was adopted on 24 April 2020 introducing further 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.

EPRC research[48] shows that programme authorities across Europe 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.

The Commission reports that there were 157 confirmed COVID-19 relevant ERDF/CF programme amendments in 19 Member States and the UK by 23 September 2020. Overall, €13.2 billion has been mobilised through the ERDF and CF to tackle the pandemic in the following fields:[49]

- Health (€3.1 billion): for PPE, testing, hospitals.
- SMEs (€7.5 billion): for working capital, digitalisation, and setting up or redesigning financial instruments.
- Employment (€1.2 billion): job retention schemes and support to vulnerable groups.

- Other fields (€1.4 billion): innovation, tourism, social services, education and infrastructure.

Illustrative examples of the scale of programme reallocations to tackle the crisis in a selection of Member States are provided in Table 9. The main interventions supported in these countries are:

- Health: infrastructure and equipment e.g. ventilators and PPE (BG, ES, HR, FR, LT, LV, PL, SI).
- Small business support: working capital (BG, ES, FR, GR, PL) including loans, guarantees or equity (BG, FR, GR, HR, IT, PL, SI)
- Education: ICT/digital learning equipment for education sector (ES, HR, PL, SI) and health staff (FR), e-health platform (PL).
- Research and innovation: COVID/health research (BG, HR, SK), innovative start-up support (IT).
- Employment and social care: temporary job schemes/subsidies (BG, HR, LT, LV, PL, SK), assistance to elderly/vulnerable (BG, PL, SI), hiring medical staff (LV), support for social economy/NGOs (PL).
- Broadband infrastructure: PL, LV.

Table 9: Programme modifications in a selection of Member States

Country	Funding reallocated (millions)	Programmes modified
Bulgaria	€750	2
Croatia	€135	1
France	€39.6	5
Greece	€1,150	15
Hungary	€320	1
Italy	€266.6	5
Latvia	€500	
Poland	€1,057	6
Slovakia	€410	n.a.
Slovenia	€275	1
Spain	€1,350	16

Source: https://ec.europa.eu/regional_policy/en/newsroom/coronavirus-response/

The most frequently used flexibility measures in order of importance are:[50]

- the 100 percent EU co-financing rate; transfers of resources within priority axes of the same Fund and programme;
- transfers of resources between Funds (€2.2 billion ERDF/CF), categories of regions (€1.3 billion ERDF/CF) and priorities (€1.1 billion ERDF/CF);
- flexibility on Financial Instruments;
- flexibility on thematic concentration;
- extension of deadlines for project implementation and for project calls;

- simplification with respect to audit and to Financial Instruments ex-ante assessment; and
- moving some projects at initial stage of implementation to the next period

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.[51] 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.

4.2 The Second Wave: Responding to COVID in 2021-27

A greater role for ESIF in responding to the crisis is expected during the future recovery phase through the use of additional REACT-EU funding and taking account of the amendments to the CPR and Fund Regulations for 2021-27 as part of the Recovery Plan.

4.2.1 Regulatory developments

To provide a stronger response to the short and medium-term consequences of the pandemic, the CRII/CRII+ initiatives were supplemented with proposals for a REACT-EU instrument and amendments to the Regulations for 2014-20 as part of the EU Recovery package:

- The REACT-EU instrument Regulation (COM 2020/451), as part of the Next Generation EU package, proposed to mobilise €58 billion in 2020-2022 to tackle the crisis effects; and
- Commission amendments to the CPR 2021-2027 proposals (COM 2020/450) and Fund-specific Regulations introduced an emergency mechanism for a rapid response to future shocks as well flexibilities in the use of the funds.

The regulations are still under negotiation with the Council and European Parliament. As outlined in the EP's REGI Committee report on REACT-EU on 14 September 2020, the key negotiation issues are:[52]

- **Allocations.** Maintain the level of financial resources proposed by the Commission at €55 billion, despite the European Council proposed budget cuts, with a balanced

distribution to less developed regions and the regions and cities most affected by the pandemic. The breakdown of resources by Member States should be set out in a Delegated Act rather than an Implementing Act.

- **Absorption.** Ensure that projects are eligible for funding from January 2020 irrespective of when the regulation is approved, and extend the final eligibility date by two years to 2020-24 (from 2020-22) to ensure that the funding is fully absorbed.

- **Territorial dimension.** Earmark 5 percent of funding to cross-border projects through the ETC objective, and add clear references to rural areas in the territorial scope of support.

- **Partnership.** Ensure compliance with the partnership principle by requiring the programming of REACT-EU in OPs by Member States to involve local and regional authorities and relevant civil society bodies.

- **Evaluation.** The Commission should undertake an ex-post evaluation of the effectiveness, efficiency and added value of REACT-EU.

- **Parliamentary consultation.** The eight-week period for national parliaments' consultation of the Regulation should be maintained.

The Court of Auditors issued an opinion on both REACT-EU and the CPR amendments,[53] including ten principles for the use of EU funds in emergency situations to support the legislative negotiations (Box 2), and to inform its assessment of the proposals.

Box 2: Principles to govern the use of EU funds in emergency situations

1. Relevance: A clear intervention logic should demonstrate how the funding addresses needs and justifies the added value of EU support.

2. Targeting: Funding should be targeted at those areas and recipients where the needs are greatest, to have maximum impact.

3. Simplicity: Support should be simple to administer, while achieving its objectives, with minimal burden on beneficiaries.

4. Coordination: EU support should be well coordinated with other EU instruments and between EU and national support measures.

5. Timing: EU support should be available to Member States, and hence to beneficiaries, in a timely manner. Measures should only be in place as long as they are needed.

6. Transparency and accountability: The Commission and Member States should be accountable for their use of EU funds. Tracking emergency measures, and so maintaining transparency, can be challenging, but is essential to ensure accountability.

7. Sound financial management (value for money): Within the limited time available for Member States to spend the new money, absorption should not be prioritised over value for money considerations.

8. Monitoring and reporting: Monitoring arrangements should be in place to facilitate accountability, and provide accurate and reliable information for managers with a view to making improvements based on practical experience.

9. Evaluation: Evaluations at programme and policy level should be used for decision-making. If there is insufficient time for ex ante evaluation, provision should be made for ex post evaluation at Member State level for use by the Commission.

10. Fraud/abuse awareness: Significant EU support under emergency measures, together with a relaxation of some procedural requirements, entail an increased risk of irregularities and fraud. All the organisations involved in managing public money should be particularly attentive to these risks.

Source: ECA (2020) *op.cit.*

On the basis of these principles, the key issues highlighted by the Court with respect to the REACT-EU proposal were:

- **Allocation method.** The Court stresses that the new method for allocating the funding to Member States may be distorted by their underestimated unemployment figures, notably in those Member States where temporary job retention schemes are in place during the period used to calculate the allocations,

- **Absorption.** There is a risk that Member States may not be able to spend the additional funding effectively. This risk applies particularly to Member States likely to be hit hardest by the pandemic, which have lower absorption rates.

- **Strategic coherence.** The proposal gives Member States freedom to use the additional funding within broad fields of intervention, and lacks detail on how it will be coordinated with other EU instruments and national schemes creating risks of fragmentation or duplication.

- **Management.** The Court supports the Commission's proposal to administer the REACT-EU funding under existing Cohesion Policy structures in Member States, which should make programming simpler and facilitate a more robust rationale for spending.

- **Legality and regularity.** Providing significant additional funding in a short period of time carries a higher risk of irregularity and fraud.

- **Monitoring and evaluation.** The absence of mandatory common indicators will make it difficult to assess effectiveness at the EU level. Nor is there a requirement for an ex post evaluation of REACT-EU funding, limiting the Commission's ability to learn lessons for the future.

Turning to the Commission's proposed amendments to the CPR for 2021-27, the Court's opinion focused on three main issues.

- **Time limits.** The proposal does not specify an end point for the additional powers that would be granted to the Commission.

- **Budgetary flexibility.** The proposal does not justify why lowering the threshold for operations that can be phased between different programme periods from €10 million to €5 million is not restricted to the temporary measures.

- **Monitoring and evaluation.** The proposal includes improved provisions for the tracking of funding to address emergency situations, but does not include provisions on mitigating the risk of deadweight from retrospective approval for projects.

In parallel to the negotiations of REACT-EU and the CPR amendments, **the negotiations of the Cohesion Policy legislative package for 2021-27 have reached an advanced stage**. The resumption of Trilogue negotiations during September 2020 has achieved a convergence of views between the co-legislators on several issues in the CPR: visibility of EU funding, climate proofing, VAT eligibility, level of interim payments, and easier conditions for outermost regions. Negotiations on the ERDF have focused on integrated territorial development in urban & rural areas leading to agreement on 8 percent of expenditure to be earmarked for sustainable urban development.

Finally, the Commission's proposal for a Just Transition Fund in January 2020 was amended on 28 May 2020 as part of the EU Recovery Plan. The regulation specifies the objectives, scope of support and resource allocation method. It also outlines the content of territorial just transition plans and establishes a framework of indicators to measure progress towards targets. The EP approved a resolution on the JTF on 17 September 2020 calling for changes to the Commission proposal and European Council agreement:[54]

- **Allocations:** a substantial increase in the budget to €25 billion in 2018 prices (compared to €11 billion proposed by the Commission, and a decrease to €7.5 billion agreed by the European Council) supplemented with €32 billion (in current prices), already proposed under the EU Recovery Instrument. The JTF should not lead to cuts to, or compulsory transfers from, the other cohesion funds.

- **Scope:** extension of the fund's scope to sustainable investments, for example in microenterprises, sustainable tourism, energy storage technologies, smart and

sustainable mobility, low-emission district heating, projects fighting energy poverty, culture, education and community building.

- **Co-financing:** a rate of up to 85 percent for projects targeting the most vulnerable communities in each region.
- **Island and outermost regions:** should receive a share of 1 percent of the total budget.
- **Green reward mechanism:** establishing a reserve of 18 percent of the total JTF resources to be allocated to Member States that reduce their greenhouse gas emissions more quickly than others, with only 50 percent of the national allocation available for countries which have not yet committed to a 2050-climate neutrality national target.
- **Exclusions:** allowing investments in activities related to natural gas under strict conditions.

4.2.2 *Member State perspectives*

Critical to the European Recovery Plan measures for investment is the ability of Member States to programme and spend the additional resources in a strategic, coherent and timely manner, and to undertake the associated reforms. There are concerns about tensions between the goals of short-term recovery and longer-term development, insufficient coherence across the new EU instruments and with Cohesion Policy, and perceived deficiencies in the territorial dimension of recovery instruments.

i Programming

The preparation and negotiation of the programmes for the 2021-2027 period, and the implementation of Operational Programmes relating to both periods through REACT-EU, poses a considerable administrative challenge. However, the crisis has not had a major impact on the timing of the programming for 2021-27 as preparations were advancing before the pandemic, notwithstanding some delays due to the need to adapt to the EU recovery package instruments and objectives (e.g. Finland, Poland, Portugal). For instance, Finland was advised by the Commission to support PO2 (A greener, low-carbon Europe) in the OP, while in the past the recommendation was to focus on PO1 (a Smarter Europe) only. In Poland, PA revisions were required for the inclusion of health as a thematic priority and more broadly to access all potential funding sources and coordination with the preparation of Poland's National Recovery Plan. In practical terms, remote working has also made it more difficult to coordinate the programming tasks of different teams.

The programming of REACT-EU is at an early stage in many Member States with little information available on the planned approach. Programming is expected to involve considerable administrative work for some Member States, especially where new priorities are targeted that have not played a major role in the past, such as broadband (Austria), although existing

priorities will also be reinforced e.g. SME support, R&D, energy efficiency (e.g. Austria, Netherlands).

The formal submission of PAs and OPs for Commission approval will take place after the Regulations are agreed, which is not expected till 2021 during the early stages of the Portuguese Presidency. Despite some interruptions due to the pandemic and delayed negotiation of the EU budget, current plans among EoRPA countries suggest that PAs should be ready for submission to the Commission by the end of 2020 or early in 2021. The OPs will then be submitted in the first quarter of 2021 (e.g. Finland, Germany, Netherlands, Poland, Sweden) after the publication of the Regulations, or early in the autumn (e.g. Austria).

ii Objectives

A key question is whether the Cohesion Policy response to the crisis is blurring the purpose and long terms goals of the policy. On the one hand, the current focus of Cohesion Policy on short-term crisis issues and on providing immediate and flexible funding can be seen as detracting from long-term development goals (Germany, Finland, Sweden). The Commission recognises that OP modifications under CRII/CRII+ aimed at mitigating the immediate effects of the COVID-19 crisis resulted in reductions in allocations for projects or programmes that are crucial for the long-term green and digital transition, notably in the fields of Research & Development (except COVID-related investments), transport and energy efficiency. As noted by the Court of Auditors, there is an inevitable tension between the aim of providing funding for use by Member States as swiftly as possible and the objectives of making the funding available where it is most needed and in the most effective manner.

On the other hand, the new initiatives are being used to reinforce existing Cohesion Policy priorities in some Member States (Austria, Netherlands, Sweden). Further, it is clearly justifiable for Cohesion Policy to respond to the territorial inequalities generated by the pandemic. There has always been flexibility in the regulations to re-programme funding in response to changes in the socio-economic context. That said, the view of a number of net payers and the Commission is that REACT-EU should be exceptional and temporary in order to avoid indiscriminate spending and to ensure that the long-term structural objectives of Cohesion Policy are not undermined.

iii Strategic coherence

The success of the EU recovery package investment plans will require a strategic and coherent approach across the new instruments and with Cohesion Policy. The introduction of a new layer of rules and instruments has made it more challenging to provide a coherent overview of the whole Cohesion Policy package in the Partnership Agreement strategy and to clearly identify synergies and areas of overlap across instruments. The key issue for a number of Member States is what the RRF will mean in practice in terms of specific implementation modalities and the relationship with Cohesion Policy (e.g. Finalnd, Germany, Portugal). As

noted earlier, the Commission's recent publication of guidance on the RRF may provide some clarity, but there are still concerns about:

- The potential for overlap and competition between the RRF and Cohesion Policy given that both are funding similar investments. The RRF implementation is more flexible with fewer requirements and does not require national co-funding, which could lead to the RRF being prioritised for project implementation and undermine Cohesion Policy. For instance, if a Member State wanted to build an innovation centre, it could be easier to do this with RRF than with Cohesion Policy in terms of funding levels and also implementation rules.

- The RRF will be linked to the EU Semester process but the invesments will not necessarily be Inked to the specific reforms. This differs from how Cohesion Policy has been linked to the EU Semester involving a close relationship between investments and 'relevant' reforms.

- There are potential implications for the future Cohesion Policy budget as the RRF will involve high levels of EU funding and also high political interest among EU institutions. Accordingly, there will be strong pressure on ensuring that the RRF funds will be spent, and this could be at the expense of Cohesion Policy, especially if the RRF funds mature projects that were planned or eligible under Cohesion Policy. In the next MFF after 2027, this could lead to the conclusion that the RRF (or a similar budget transfer instrument) is more effective and efficient than Cohesion Policy leading to the RRF becoming a permanent and preferred instrument.

By contrast, Poland and Portugal have a more positive view about the new architecture and the potential for generating synergy effects between Cohesion Policy and the RRF, although the national recovery plans are still being developed and the reality may differ during implementation.

iv Territorial dimension

There has been criticism of the absence of a territorial dimension in the REACT-EU instrument and the RRF by the Committee of the Regions and other territorial stakeholders and interest groups.[55] The main concerns are the lack of a binding committment to the partnership principle in the REACT-EU regulation and the national approach to the finanical allocations mechanism. Subsequently, the Commission issued a standard letter to all Member States on 29 July 2020 providing general guidance on REACT-EU and recommendations to target the geographic areas whose economy has been hit the hardest by the pandemic and that are the least resilient as well the need to respect the partnership principle.

The territorial dimension of the Just Transition Fund is of greater concern to many national authorities, which have been critical of the proposed geographical coverage of the fund by

the Commission (Box 3) and called for other regions or geographical scales to be eligible for support (e.g. Austria, Finland Germany, the Netherlands, Portugal). Austria and Portugal are both undertaking detailed analyses of the territories that could be eligible for the JTF support on top of those already identified by the Commission for further discussion. For instance, Austrian authorities consider that geographical eligibility should be at the NUTS2 rather than NUTS3 level.

Box 3: Just Transition Fund Regions proposed by the Commission

- Austria – Östliche Obersteiermark, Traunviertel
- Belgium – Tournai, Mons, Charleroi
- Bulgaria – Maritsa, Bobov Dol
- Cyprus – Vassilikos, Dhekelia
- Czechia – Moravskolezsky, Ustecky, Karlovarsky
- Germany – Elbe-Elster, Oberspreewald-Lausitz, Dahme-Spreewald, Spree-Neiße, Cottbus, Bautzen, Görlitz, Leipzig, the City of Leipzig, Nordsachsen, Burgenlandkreis, Saalekreis, the City of Halle, Mansfeld-Südharz, Anhalt-Bitterfeld, Düren, Rhein-Kreis Neuss, Rhein-Erft-Kreis
- Denmark – Northern Jutland
- Estonia – Northeastern
- Spain – Asturias, León, Palencia, Cádiz, A Coruña, Córdoba, Almería, and Teruel
- Greece – Kozani, Kastoria, Florina (Western Macedonia), Megalopolis, Heraklion, Lasithi, Rethimno, Chania (Crete) and Aegean Islands (Lesvos, Samos, Chios, Rhodes, Mykonos)
- Finland – Etelä-Savo, Pohjois-Savo, Pohjois-Karjala, Kainuu, Keski-Pohjanmaa, Pohjois-Pohjanmaa, Lappi
- France – Nord, Bouches-du-Rhône
- Croatia – Sisak-Moslavina, Istria
- Hungary – Heves, Baranya
- Ireland – Midlands
- Italy – Taranto, Sulcis-Iglesiente
- Lithuania – Kaunas, Telsai, Siauliai
- Luxembourg – Esch sur Azette, Rumelange
- Latvia – Vidzeme, Latgale
- Malta – Grand Harbour Port, FreePort
- Netherlands – East Groningen, Delfzijl, surroundings and rest of Groningen
- Poland – Katowice, Bielsko–Biała, Tychy, Rybnik, Gliwice, Bytom, Sosnowiec, Konin, Wałbrzych
- Portugal – Alentejo Litoral, Medio Tejo, "Concelho" of Matosinhos
- Romania – Hunedoara, Gorj, Dolj, Galați, Prahova and Mureş
- Sweden – Norrbotten, Västerbotten
- Slovenia – Zavaska, Savinjska
- Slovakia – Trencin, Kosice

There is also debate about the compulsory co-financing of the JTF with ERDF and ESF+. In the Netherlands, some regions will receive substantial budgets from the ERDF, ESF+ and JTF, while other (carbon-intensive) regions will have no access to the JTF, and as a result of the ERDF co-financing condition, will receive less ERDF support. Similarly, the areas designated in Germany are small, which poses problems because they would receive a large amount of the overall

Cohesion Policy allocation for the relevant Laender, most of which are Transition Regions and expected to see a significant fall in overall funding. i.e. other areas in these Laender would not be allocated much Cohesion Policy funding, but would also not be allocated the domestic funding allocated to the coal transition regions.

v Management, monitoring and evaluation

The impact of the COVID crisis and Cohesion Policy response on the future management and architecture of the programmes is limited with an expectation of continuity in most cases (e.g. Austria, Finland, Germany, Netherlands, Poland, Portugal, Sweden). France is an exception where a large reduction in the number of OPs is expected from 41 to 22 programmes, facilitated by the merger of French regions in 2016, although the management and coordination responsibilities will remain unchanged. A rationalisation in the programme architecture was being considered in the Netherlands in early 2020 given the expected cuts in the Cohesion budget. However, the Council agreement on a sizeable Cohesion budget in response to the crisis has meant that the current architecture, involving four regional programmes, can be justified and maintained.

The need for additional management resource for the Just Transition Fund is being considered in some Member States (e.g. Finland), especially given the significant volume of funding involved in some countries. The REACT-EU instrument will be implemented through existing structures and is likely to place strains on programming and implementation, potentially leading to new types of compliance risks according to the European Court of Auditors. While CRI/CRII+ and REACT-EU provide additional flexibility, the funds will still have to be used as intended and respect all applicable legal obligations.

More positively, the crisis has strengthened the rationale for pre-existing moves towards e-cohesion. In Poland, provisions for the use of IT tools, including performing activities remotely, will be included in future national regulations on the implementation of Cohesion Policy programmes.

To monitor the outputs of actions targeting the COVID-19 response, the Commission proposed a list of indicators on 12 May 2020 to be used on a voluntary basis. The purpose is to support accountability, transparency and communication at both national and EU levels. The Commission reports that 15 Member States had proposed to use the "common" or national COVID indicators in 87 programmes (ERDF and ESF) by mid-September 2020. A total of 589 indicator uses are identified, of which 458 are Commission proposed indicators and 131 are national programme-specific indicators. The Commission plans to publish the target values for the COVID-19 indicators in October / November 2020 on the Open Data portal, although the first annual report on implementation is not due till May 2021.

COVID-19 is also impacting on evaluation plans and activities. For instance, Poland has adapted the proposed evaluation methodologies to cater for the use of remote methods and

has also integrated some evaluation work into horizontal studies in order to free up resources for direct support to the recovery effort.

5 CONCLUSIONS

After four days of heated debate, the Special European Council (EUCO) on 17-21 July 2020 reached agreement on the European Recovery Plan and the budget for 2021-27 with the aim of facilitating a "sustainable and resilient recovery" while supporting the green and digital transitions. 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.

The Next Generation EU recovery plan will provide up to €750 billion allocated 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 of concern that were not fully resolved in the Council agreement or are subject to interpretation. The first is the ability of the EU to deliver on the expectations associated with the RRF. Key questions are: whether Member States can spend the resources allocated effectively; the extent to which it promotes the anticipated structural reforms; the relationship between the RRF and Cohesion Policy; and whether the governance of the RRF will provide sufficient accountability. A second concern is whether Member States are able to reach agreement on the application of a rule of law conditionality to expenditure, given the highly polarised positions between different groups of Member States. Lastly, there are ambitious changes proposed for reforming the system of Own Resources to pay for the borrowing: a plastics levy may be introduced quickly but bigger challenges lie ahead for carbon and digital taxes given the implications for international trade and relations.

The budgetary implications of the Council agreement for Cohesion Policy are significant. Overall, the MFF outcomes for Cohesion Policy were not radically different from the Commission's 2018 proposals, though allocations to More Developed Regions were reduced so that a number of prosperous Member States were proportionately more negatively affected. The methodology for allocating the funds – the so-called 'Berlin formula' was not fundamentally challenged, but as in the past, 'additional provisions' clearly played an important role in clinching agreement; these largely account for the €7.5 billion gap between the Michel proposals of February 2020, which with the Finnish Negotiating Box had sought to reduce the overall budget, and the EUCO conclusions which ultimately endorsed the Cohesion Policy budget proposed by the Commission in 2018.

It is important to recall, however, that the Cohesion Policy outcomes represent a substantial reduction in MFF funds for economic, social and territorial cohesion for 2021-27, compared to 2014-20. Even after adjusting for Brexit, Heading 2a for 2021-27 is 9.2 percent less than in 2014-20 in real terms. A total 17 Member States are set to see a reduction of more than 10 percent in their MFF Cohesion Policy receipts; just four Member States would see an increase on 2014-20 allocations.

NGEU is legally distinct from the MFF although Council agreement on both were packaged together in the EUCO conclusions. NGEU 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). Financially, the scale of RRF grants rival Cohesion Policy, but the balance of distribution differs, with 70 percent of the MFF Cohesion budget allocated to Cohesion countries, but just 47 percent of RRF grants, and an estimated 54 percent of REACT-EU. It remains to be seen how the institutional complexities of funding the same or similar instruments from sources with different legal bases can be settled, and whether there are longer term implications for Cohesion Policy of significant 'off budget' resources.

In parallel to the negotiations and agreement on the Recovery Plan, Cohesion Policy provided a rapid response to COVID through the CRII and CRII+ administrative flexibilities to facilitate liquidity and spending under the 2014-20 programmes and provided a blueprint for REACT-EU and emergency response amendments to the 2021-27 Regulations. 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. 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.

Cohesion Policy will provide a stronger investment response to the fallout of the pandemic in the recovery phase. Most EoRPA countries expect to finalise their 2021-27 PAs and OPs by the end of the year or 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 related investment needs.

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 RFF could lead to a reduction of cohesion resources in the post-2027 period. The Commission's proposal for the geographical targeting of the Just Transition Fund is also questioned, given the needs of other regions or territorial scales.

A fundamental question about the rationale of Cohesion Policy is whether the COVID related regulatory flexibilities and REACT-EU instrument 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, a number of 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 of Cohesion Policy are not undermined.

The programming and management of the 2021-27 PAs and OPs will stretch the administrative resources of programme authorities at all levels as they integrate new instruments while completing the spending commitments for 2014-20 and making final programme modifications to respond to the crisis. Continuity is expected in management systems and the programme architecture for 2021-27, which should help to facilitate the timely launch of the programmes and the REACT-EU component. The main expected changes are increased resources to manage the Just Transition Fund, greater digitalisation of management (e-cohesion), and adaptation of monitoring and evaluation to take account of COVID relevant interventions and to support accountability over the policy's response to the pandemic. As the negotiations on the 2021-27 Regulations reach the final stages, the challenge will be to approve the programmes and spend the allocated funding quickly and effectively to support European recovery and mitigate the effects of the crisis on territorial disparities.

ANNEX I: Changes to Commission proposed methodology

	COM(2018)475 CPR	FI NegoBox	Michel EUCO 14 Feb 2020	EUCO 10/20
GDP data	2014-16	2015-17	2015-17	2015-17
GNI data	2014-16	2015-17	2015-17	2015-17
Prosperity coefficient GNI<82%	2.8	2.8	2.85	2.85
Prosperity coefficient GNI>82% <99%	1.3	1.2	1.25	1.25
Prosperity coefficient GNI>99%	0.9	0.7	0.7	0.75
LDR unemployment premium	€ 500	€ 570	€ 570	€570
LDR youth unemployment premium	€ 500	€ 570	€ 570	€570
LDR low education premium	€ 250	€ 250	€ 270	€270
LDR GHG premium	€ 1	€ 1	€ 1	€ 1
LDR migration premium	€ 400	€ 405	€ 405	€405
TR theoretical min per capita	€ 18	€ 16.7	€ 15.2	€ 15.2
TR unemployment premium	€ 500	€ 560	€ 560	€560
TR youth unemployment premium	€ 500	€ 560	€ 560	€560
TR low education premium	€ 250	€ 250	€ 250	€250
TR GHG premium	€ 1	€ 1	€ 1	€ 1
TR migration premium	€ 400	€ 405	€ 405	€405
MDR per capita envelope	€ 18	€ 16.7	€ 15.2	€15.2
MDR population	20%	20%	20%	20%
MDR unemployment	15%	15%	12.5%	12.5%
MDR employment	20%	20%	20%	20%
MDR tertiary education	20%	20%	22.5	22.5%
MDR early education leavers	15%	15%	15	15%
MDR prosperity	7.5%	7.5%	7.5	7.5%
MDR low population density	2.5%	2.5%	2.5	2.5%
MDR GHG premium	€ 1	€ 1	€ 1	€ 1
MDR migration premium	€ 400	€ 405	€ 405	€405
CF per capita base for envelope	€ 62.9	€ 62.9	€ 62.9	€62.9
CF share calculation	Allocation key based on shares of population & area, adjusted for GNI disparities	No change	No change	No change
Capping band 1	GNI<60% 2.3% GDP	GNI<60% 2.3% GDP	GNI<55% 2.3% GDP	GNI<55% 2.3% GDP
Capping band 2	GNI<65% 1.85% GDP	GNI<65% 2% GDP	linear interpolation	linear interpolation
Capping band 3	GNI>65% 1.55% GDP	GNI<70% 1.55%	GNI>68% 1.5% GDP	GNI>68% 1.5% GDP
Capping band 4		GNI>70% 1.50%		
Ceiling % of 2014-2020	108%	107%	107%	107%
Floor % of 2014-2020	76%	73%	73%	76%
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	

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EoRPA RESEARCH

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