RECOVERY & COHESION: AMBITIOUS OBJECTIVES, CHALLENGING IMPLEMENTATION

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EXECUTIVE SUMMARY

Following the landmark agreement achieved at the Special European Council in June 2020, the remainder of 2020 was dominated by the inter-institutional negotiations, requiring further EUCO meetings to resolve application of the rule of law conditionality, before agreement in December 2020. The Cohesion Policy Regulations for 2021-2027 were adopted by the co-legislators on 24 June 2021, and entered into force on 1 July 2021.

With respect to implementation, a priority for Cohesion Policy policymakers in 2020 was using ESIF funding to support investment during the crisis. The CRII/+ packages of administrative flexibilities facilitated liquidity and spending under the 2014-20 programmes. Substantial levels of funding have been reprogrammed and mobilised.

REACT-EU continues and extends the COVID-19 crisis response measures while aiming to provide a bridge to preparing economic recovery. 22 countries have so far received REACT-EU payments, regarded as valuable but placing a strain on management and absorption capacity.

The European Commission has identified strengthening coordination, ensuring clear demarcation and developing complementarities between EU Funds and instruments as fundamental objectives for the 2021-27 Multiannual Financial Framework. A key challenge for Cohesion Policy is its future relationship with the Recovery and Resilience Facility (RRF) – which has the objectives of promoting short-term recovery and long-term economic and social development. The RRF has implications both for Cohesion Policy programming in 2021-27 and the post-2027 architecture of EU intervention.

The Cohesion Policy reform debate for the post-2027 period is likely to commence in the coming months. The most important factor influencing reform are decisions on the future of the RRF beyond 2023. Alongside the evolving experience of the RRF a key question is also the evidence of how well Cohesion Policy has performed in 2014-20. A number of scenarios can be envisaged to highlight potential post-2027 reform directions with respect to the financing, objectives, governance and implementation arrangements of Cohesion Policy.

1 INTRODUCTION

Following the momentous EU budget and policy decisions in 2020, the EU faces four challenges. First, it needs to channel investment quickly and effectively to projects that can spur **economic recovery** from the pandemic, manage the social consequences and increase resilience to future shocks. Second, it has the ambition of accelerating a **green transition** to help manage climate change, and **digital transformation.** Both transitions have significant implications for economic development and differential social and territorial impacts. Third, the EU is promoting far-reaching **structural reforms** and stronger EU-level governance in order to improve the EU's long-term development prospects. Last but not least, the EU needs to address **widening territorial disparities** within many Member States and popular discontent with so-called 'places left behind'.

In addressing these policy challenges, the EU policymaker agenda over the past year has been dominated by planning for implementation of the Recovery and Resilience Facility (RRF), with the submission, Commission approval and Council adoption of National Recovery and Resilience Plans. Under Cohesion Policy, the year has seen negotiations on the regulatory package and its approval under the Portuguese Presidency. Among Managing Authorities and Implementing Bodies, there have been multiple parallel tasks:

- completing the commitment of resources under the 2014-20 programmes and ensuring drawdown of expenditure and planning for programme closure;
- programming the Partnership Agreements and Operational Programmes for 2021-27, often delayed by the priority given to RRF planning; and
- programming implementation of the Just Transition Fund and REACT-EU, as a bridge between programme periods.

In addition, there is initial reflection underway, mainly within the Commission services but also some Member States, on the implications of policy developments for post-2027 Cohesion Policy and a new Multiannual Financial Framework.

This paper examines the current state-of-play of Cohesion Policy. It briefly summarises the key political and policy developments followed by an overview of programming in Cohesion Policy. The paper then examines the challenge of complementarities between Cohesion Policy and other EU funding, focusing on how the RRF and preparation of NRRPs take account of cohesion challenges in terms of priorities, resource allocation and governance. Looking beyond the current policy period, the paper then explores issues relevant for the post-2027 Cohesion Policy and possible policy models before drawing some final conclusions.

2 COHESION POLICY 2021-27: BUDGET, REGULATIONS AND PROGRAMMING

2.1 The MFF and regulatory package

The political context for the Multiannual Financial Framework, and the role of Cohesion Policy, were radically changed by the pandemic.[1] After extensive bilateral and multilateral negotiations,[2] the Special European Council (EUCO) in July 2020 not only allocated **substantial funding for the Next Generation EU recovery plan (NGEU) with up to €750 billion through a mix of grants and loans** and a commitment to accelerate a 'green transition' and 'digital transformation'. It also broke new ground by enabling **borrowing powers**, and it introduced **new conditionalities** relating to structural reforms and **minimum spending to address climate change**.[3]

The key instrument for delivering NGEU 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 agreed by the EUCO committed to making available €1,074.3 billion in commitment appropriations. The largest shares would 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.

The budgetary implications of the Council agreement for Cohesion Policy were 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.

The EUCO conclusions invited the Council "to take up negotiations with the European Parliament" to obtain the consent of the EP for the MFF (and the funding of each of the constituent instruments, programmes and funds) and to finalise the legal acts with "exceptional urgency". The Parliament was also invited to agree with the Council and Commission on the exercise of political control of the Budgetary Authority for the NGEU.

The inter-institutional negotiations were characterised by two key issues. The first was interpretation of the EUCO conclusions that **"The European Council underlines the importance of the respect of the rule of law"** (para. 22). Initially, Hungary and Poland withheld their consent from the proposed application of the rule of-law conditionality, which was not resolved until December 2020. The EUCO meeting on 10-11 December 2020 set out the principles for an application of the conditionality mechanism, described as "objective, fair, impartial and fact-based, ensuring due process, non-discrimination and equal treatment of Member States".[4] The agreement made provision for the Commission to develop an assessment conditionality that would be specific (rather than applying to generalised deficiencies), proportionate to the impact of breaches, and respectful of subsidiarity. It also foresees that guidance on "an action for annulment" will only finalised after a judgement of the Court of Justice."

The second issue was the **concern of the European Parliament about 'legislative trespass'** of the Council. This is reflected in the length and detail of the EUCO conclusions and more specifically the scope for the European Council to be involved in the implementation of MFF-related legislation, regarding the Recovery and Resilience Facility and the rule of law mechanism.[5] In its resolution of 17 December on the MFF, rule of law conditionality and own resources, the EP was critical of the Council's encroachment on EP competences:[6]

> *recalls that the content of the European Council conclusions on the Regulation on a general regime of conditionality for the protection of the Union budget is superfluous; recalls that the applicability, purpose and scope of the Rule of Law Regulation is clearly defined in the legal text of the said Regulation;*
>
> *Recalls that in accordance with Article 15(1) TEU, the European Council shall not exercise legislative functions; considers, therefore, that any political declaration of the European Council cannot be deemed to represent an interpretation of legislation as interpretation is vested with the European Court of Justice (CJEU);*

In budgetary terms, the MFF and NGEU remained unchanged following the inter-inter-institutional negotiations (see Table 1). However, **the EP was able to agree so-called 'top-ups'** – an additional €15 billion for 10 flagship programmes, mainly Horizon Europe (€4 billion), EU4Health (€3.4bn) and Erasmus+ (€2.2bn) but also significant increases in relative terms for 'Rights and values', Creative Europe and Invest EU, and more marginal sums for the Integrated Border Management Fund, European Border and Coast Guard, Humanitarian Aid, and the Neighbourhood Development and International Cooperation Instrument. These commitments will be financed using revenue from competition fines, decommitted research funds and reflows under the European Development Fund.[7] The Parliament also negotiated an increase for the Flexibility Instrument (€1 billion) and the removal on limitations on its use.

Table 1: Multiannual Financial Framework and Next Generation EU, Commitments - December 2020 Agreement (EUR millions, 2018 prices)

	MFF		NGEU		MFF+NGEU	
Heading	**€ mill**	**%**	**€ mill**	**%**	**€ mill**	**%**
I. Single Mkt, Innovation, Digital	132781	12.4	10600	1.4	143381	7.9
II. Cohesion, Resilience, Values	377768	35.2	721900	96.3	1099668	60.3
III. Nat. Resources, Environment	356374	33.2	17500	2.3	373874	20.5
IV. Migration, Border Management	22671	2.1			22671	1.2
V. Security, Defence	13185	1.2			13185	0.7
VI. Neighbourhood & the World	98419	9.2			98419	5.4
VII. European Public Administration	73102	6.8			73102	4.0
Total commitment appropriations	**1074300**	**100.0**	**750000**	**100.0**	**1824300**	**100.0**

Source: Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027, Official Journal of the EU, L433, 22.12.20

With respect to the regulatory negotiations, the Cohesion Policy legislative package for 2021-27 had reached an advanced stage prior to the pandemic. Trilogue negotiations had achieved a convergence of views between the co-legislators on key issues in the CPR: visibility of EU funding, climate proofing, VAT eligibility, level of interim payments, the Just Transition Fund, and easier conditions for outermost regions. Negotiations on the ERDF had focused on integrated territorial development in urban & rural areas leading to agreement on 8 percent of expenditure to be earmarked for sustainable urban development.

These negotiations continued during 2020-21 but with priority initially given to adoption of the Coronavirus Response Investment Initiative (CRII/CRII+) in April 2020 to provide liquidity and administrative flexibility for Cohesion Policy programmes, and the REACT-EU instrument as part of the Next Generation EU package to mobilise €58 billion in 2020-2022 to tackle the crisis effects, adopted in December 2020.

The Cohesion Policy Regulations for 2021-2027 were adopted by the co-legislators on 24 June 2021, and entered into force on 1 July 2021.[8] This marked the final step of the longest Cohesion Policy reform process lasting more than three years. The package comprises the following Regulations:

- the Common Provisions Regulation (CPR) for shared management funds;
- the European Regional Development Fund (ERDF) and Cohesion Fund (CF) Regulation;
- the European Social Fund Plus (ESF+) Regulation;
- the Just Transition Fund to ensure that the green transition is fair and inclusive.
- the Interreg Regulation laying down specific provisions for the European territorial cooperation goal supported by the European Regional Development Fund and external financing instruments.

The adoption of the Regulations provides the legal basis for the formal submission and approval of programming documents, as well as the preparation and adoption of the accompanying Implementing Acts and other guidance.

2.2 The CRII and CRII+ packages: latest results

As noted above, a priority for Cohesion Policy policymakers in 2020 was using ESIF funding to support investment during the crisis. The Coronavirus Response Investment Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+) packages of administrative flexibilities facilitated liquidity and spending under the 2014-20 programmes. The latest data as of 21 September 2021 show that **substantial levels of funding have been reprogrammed and mobilised**:[9]

- €7.7 billion in EU reallocations for health actions – such as purchase of medical equipment and PPE – resulting in a net increase of EUR 7.4 billion at EU level (notably in Spain, Italy, Poland and Romania),

- €11.5 billion in EU reallocations in business support resulting in a net increase of EUR 3.7 billion at EU level (especially in Italy, Greece, Romania, Portugal and Croatia); and

- €4.3 billion of direct support for people, including workers and vulnerable groups (concentrated in Italy, Poland, Slovak Republic, Spain and Portugal).

The main impact of the financing rule changes was:

- €7.6 billion increase in immediate liquidity by not requiring the annual reimbursement of unspent funds (mostly in Poland, Spain, Italy, Hungary, Slovak Republic and Romania);

- 188 Cohesion Policy programmes (out of 392 in total) applied 100% EU co-financing to reduce the immediate pressure of national budgets; and

- €5.7 billion was transferred between Funds and between categories of regions.

EPRC research[10] shows that programme authorities across Europe welcomed the provisions introduced in CRII and CRII+, particularly the administrative flexibilities. However, programmes have very different levels of capacity to respond, and the main investment responses were often through domestic policies and resources. The main measures reported by the Commission in a selection of EoRPA countries (that are EU Members) are listed in Table 2.[11]

Table 2: Main CRII/CRII+ measures in EoRPA countries

Country	Main measures
Austria	• Existing projects are on track leaving little uncommitted resources for re-allocation. • Focus on rapid reimbursement of payment requests to beneficiaries of existing contracts and address remaining issues from national funding. • MAs use audit simplifications and additional liquidity provided by the €18 million of non-recovered pre-financing for coronavirus-related expenditure
Finland	• High rate of implementation and commitment leaving limited scope for reprogramming. • Some priorities re-aligned to provide calls for projects tackling Covid-19 impacts.
Germany	• Invested ca. €6 million for the purchase of medical equipment and to support 10 laboratories to increase testing capacity. • Some €64 million being used for business support, especially for the working capital of SMEs. • CRII flexibilities used to address potential delays in ongoing project calls and to ensure liquidity to beneficiaries. • Funding for the unemployed and other vulnerable groups has increased by €25 million.
Italy	• Changes to most programmes with reallocations of €4.5 billion in total, of which €1.8 billion is to support the healthcare system, over €1 billion to purchase PPE and €800 for purchase of medical equipment. • Mobilised over €2.8 billion in support for SMEs through grants (€626 million) and soft loans (€2.2 billion) benefitted over 379,000 SMEs. • Over €1 billion in assistance for unemployment and support to vulnerable groups.
Netherlands	• High selection rate and most projects are at an advanced stage, leaving limited scope for significant changes. • Focus on facilitating measures, such as extension of the project implementation period, accelerating payments to SMEs, allowing beneficiaries to submit extra payment claims and paying additional advances. • €1 million reallocated to accelerate innovation projects from SMEs and knowledge institutions related to the corona crisis
Poland	• Almost €860 million invested to support the health sector. • €1.1 billion dedicated for support to SMEs (€840 million in grants, €450 in Financial instruments). • €930 million to mitigate the negative social impacts on people. • €162 million under OP Digital Poland to finance equipment for distance learning and provide loans for preferential broadband infrastructure.
Portugal	• Transfers of more than €1 billion, with initial focus on mitigating short term impacts, such as acceleration of payments to beneficiaries, retroactive eligibility of expenses, and support for SMEs in the adaptation process to the crisis. • Health sector received €88 million for the purchase of ICU bed spaces, support to laboratories, increased testing capacity and research grants. • Business sector has received €48 million (€15m in financial instruments). • €57 million to support the labour market, focusing especially on the tourism sector. • 100% EU co-financing rate applied to all programmes.
Sweden	• High spending and commitment leaves little possibility to use the remaining funds, • Reallocated € 20.5 million to support SMEs, especially to enterprises in the tourism sector.
United Kingdom	• Reallocated €57.6 million towards healthcare • Main focus is national recovery programmes aimed at supporting the retail, hospitality and leisure sectors as well as a loan scheme for SMEs and a job retention scheme

Source: https://ec.europa.eu/regional_policy/en/newsroom/coronavirus-response/#11

2.3 REACT-EU: Bridging the crisis and recovery

REACT-EU (Recovery Assistance for Cohesion and the Territories of Europe) continues and extends the COVID-19 crisis response measures delivered through CRII/CRII+, while aiming to provide a bridge to preparing a green, digital and resilient recovery of the economy for the longer-term. With a budget of €47 billion, REACT-EU tops up the allocations under the 2014-2020 programmes. The funding is divided in two annual tranches. The majority is available for programming in 2021 (€39.8 billion) and the rest in 2022 (€10.8 billion), available for spending until the end of 2023.

To facilitate programming and implementation, REACT-EU has very flexible conditions. No national co-financing is required and a high level of pre-financing (11 percent of allocations) is available. Moreover, there is no ex-ante conditionality, nor thematic concentration or allocation by category of region.

The total budget of €31 billion allocated through ERDF and ESF with a focus on five thematic areas of investment:

- the green transition (€5.1 billion ERDF), of which €4.3 billion targets climate action;
- digital economy (€2.7 billion ERDF);
- enterprises and business development (€5.9 billion ERDF);
- healthcare systems (€4.3 billion ERDF); and
- labour market measures, social inclusion and education and training (€11.4 billion ESF)

Table 3 shows the available REACT-EU funding allocated by country for 2021 and the amounts formalised to date from the EU budget (total EU decided amount). The second tranche will be distributed in 2022 and will be decided at the end of 2021 based on updated socio-economic data.

The first major block of payments totalling €800 million was announced by the Commission on 28 June 2021 to 41 programmes in 16 Member States (France, Greece, Czechia, Germany, Poland, Lithuania, the Netherlands, Slovakia, Estonia Austria, Denmark, Finland, Bulgaria, Sweden, Portugal and Croatia).[12]

Table 3: REACT-EU allocations vs decided amounts (€)

Country	Allocation 2021	Total EU Decided Amount
IT	11,303,488,186	10,060,146,410
ES	10,855,365,794	7,276,049,984
FR	3,092,954,404	2,395,870,159
DE	1,886,635,380	1,776,581,650
EL	1,707,882,353	1,707,882,353
PL	1,644,723,377	629,702,456
PT	1,594,147,347	1,594,147,347
RO	1,323,880,463	1,033,880,463
HU	881,198,652	411,524,243
CZ	834,776,027	834,776,027
SK	615,975,590	615,975,590
HR	571,498,663	571,498,663
NL	440,830,027	440,830,027
BG	436,355,501	436,355,501
SE	287,346,744	287,346,744
LT	273,699,350	273,699,350
SI	262,178,030	262,178,030
BE	258,845,283	252,725,077
AT	218,330,457	129,820,372
LV	209,989,210	209,989,210
DK	177,778,625	177,778,625
EE	177,752,131	177,752,131
LU	139,834,758	70,147,379
FI	134,511,648	134,511,648
CY	111,426,890	111,426,890
MT	111,196,276	111,196,276
IE	88,334,963	0
Total	39,640,936,129	31,983,792,605

Source: *https://cohesiondata.ec.europa.eu/stories/s/REACT-EU-Fostering-crisis-repair-and-resilience/26d9-dqzy/*

The latest data on payments made by the Commission show that 22 countries have received REACT-EU payments, although only four Member States (Greece, Portugal, Bulgaria, Estonia) have received interim payments. Greece and Portugal account for over 60 percent of all payments to date (Table 4).

Table 4: REACT-EU budget payments (€)

Country	Cumulative initial pre-financing	Cumulative annual pre-financing	Cumulative interim payments	Total payments
EL	187,867,058.83	32,157,647.06	927,237,839.83	1,147,262,545.72
PT	175,356,208.17	31,882,946.94	774,224,716.98	981,463,872.09
FR	231,616,088.11	40,980,416.72	0	272,596,504.83
IT	177,600,500.00	0	0	177,600,500.00
DE	132,885,986.42	14,247,495.58	0	147,133,482.00
CZ	91,825,362.97	16,695,520.54	0	108,520,883.51
BG	45,805,662.98	5,915,094.28	38,137,514.70	89,858,271.96
SK	65,672,474.45	11,940,449.90	0	77,612,924.35
PL	58,332,821.47	6,210,880.00	0	64,543,701.47
HR	61,764,852.93	629,973.26	0	62,394,826.19
NL	48,491,302.97	8,816,600.54	0	57,307,903.51
SE	31,608,141.84	5,746,934.88	0	37,355,076.72
LT	30,106,928.50	5,473,987.00	0	35,580,915.50
SI	27,860,583.30	0	0	27,860,583.30
LV	22,425,241.41	4,077,316.62	0	26,502,558.03
DK	19,555,648.75	3,555,572.50	0	23,111,221.25
EE	19,057,734.41	3,465,042.62	314,366.79	22,837,143.82
FI	14,796,281.28	2,690,232.96	0	17,486,514.24
AT	13,620,240.92	2,476,407.44	0	16,096,648.36
BE	13,532,774.20	2,400,918.02	0	15,933,692.22
MT	12,231,590.36	2,223,925.52	0	14,455,515.88
LU	7,665,611.69	1,393,747.58	0	9,059,359.27
Total	1,489,679,095.96	202,981,109.96	1,739,914,438.30	3,432,574,644.22

Source: *https://cohesiondata.ec.europa.eu/stories/s/REACT-EU-Fostering-crisis-repair-and-resilience/26d9-dqzy/*

EPRC research shows that the additional funding is widely regarded as **providing a valuable bridging function between the first emergency crisis responses and longer-term economic recovery plans.**[13] However, the need to prioritise programming and implementation of large amounts of funds quickly is placing a strain on management and absorption capacity, especially with respect to 2014-20 closure preparations and planning for 2021-27.

2.4 2021-27 Programming: The state of play

Progress with the programming and adoption of the 2021-27 Partnership Agreements and Programmes has been slow in many countries. The delays can be attributed to a combination of factors:[14]

- the lengthy process of approving the legislative framework, which took 36 months compared to 24-26 months in the previous two reforms;
- the prioritisation of the programming of the RRF in order to meet the May 2021 deadline for submitting NRRPs; and
- the demands of implementing the current 2014-2020 programmes during the crisis combined with the programming of additional funding under the REACT-EU recovery instrument.

To date, only the Greek Partnership Agreement has been approved in July 2021. It took just two weeks to approve the Greek PA from formal submission. However, it is a unique case since the Greek authorities submitted a fully mature draft PA for informal exchanges with the Commission in December 2020, six months ahead of most other EU countries. Austria also formally submitted its PA in July 2021, but it has yet to be approved.

Most countries anticipate formally submitting their PAs between September and December 2021 with the exception of Slovenia and Spain which are expected in early 2022 (Table 5). Comparison with the 2014-20 programming period reveals the extent of the delays, given that all PAs had been formally submitted by this stage and over nine had been approved with all PAs approved by the end of 2014.[15]

The formal submission of 2021-27 Operational Programmes is expected to begin in September 2021, in some cases immediately after the submission of Partnership Agreements. The expectation is that the majority of programmes will be approved in the first two quarters of 2022.

A crucial implication of the delays and the prioritisation of RRF funding is that it is unlikely that there will fresh Cohesion Policy spending for some time. Moreover, the programmes that are approved in the coming months now may not be appropriate for 2-3 years' time given the uncertain socio-economic dynamics of the recovery. Therefore, it will be critical to strike a balance between flexibility to be adaptable, and ensuring as much strategic focus as possible during the programme negotiations.

The delayed programming and launch of programmes could also have important implications for the post-2013 reform of Cohesion Policy. The case for preserving a well-funded and place-based Cohesion Policy in the future could be undermined by a slow approval and spending. This would allow critics to argue for Cohesion Policy funding to be shifted to other EU budgetary instruments such as the RRF, if it is continued, or Horizon Europe.

Table 5: Progress with the finalisation of PA and OPs

	PA formal submission	PA approval	Expected formal Submission of OPs
AT	July 2021		Sept 2021
BE	Q3/4 2021		Q3/4 2021
BG	Sept 2021		
CY	Q4 2021		
CZ	Sept 2021		Sept 2021
DE	Oct 2021		Oct 2021
DK	Oct 2021		Oct 2021
EE	Dec 2021		Dec 2021
EL	July 2021	July 2021	
ES	Q1 2022		
FI	Sept 2021		Oct 2021
FR	Sept/Oct 2021		Sept-Oct 2021
HR			
HU	July/Aug 2021		
IE	Q4 2021		Q4 2021-Q12022
IT	Oct 2021		Oct 2021
LT	Q4 2021		Q4 2021
LU	Q4 2021		Q4 2021
LV	Q3 2021		Q3-4 2021
MT	Q4 2021		Q4 2021
NL	Sept 2021		Sept 2021
PL	Oct 2021		
PT			
RO	Q4 2021		Q4 2021
SE	July/Aug 2021		
SI	Q1 2022		Q4 2022
SK	Q4 2021		Q4 2022

Source: Commission data

While it is too early to evaluate the outcomes of the negotiations between the Commission and Member States on the final content of the PAs and OPs, ERPC research has found that most countries did not anticipate radical changes to the programme architecture, strategic priorities or governance in 2021-2027:[16]

- limited changes in the **programme architecture** in terms of the number and balance between national and regional programmes;
- continuity in terms of **investment priorities** with no major thematic shifts from 2014-20 anticipated, although with a strong focus on PO1 (Smarter Europe) and PO2 (Grener, carbon free Europe) in line with concentration obligations;
- changes to **Sustainable Urban Development strategies** – spatial coverage, governance and funding arrangements – in some countries; and
- limited change to **management arrangements** for 2021-27.

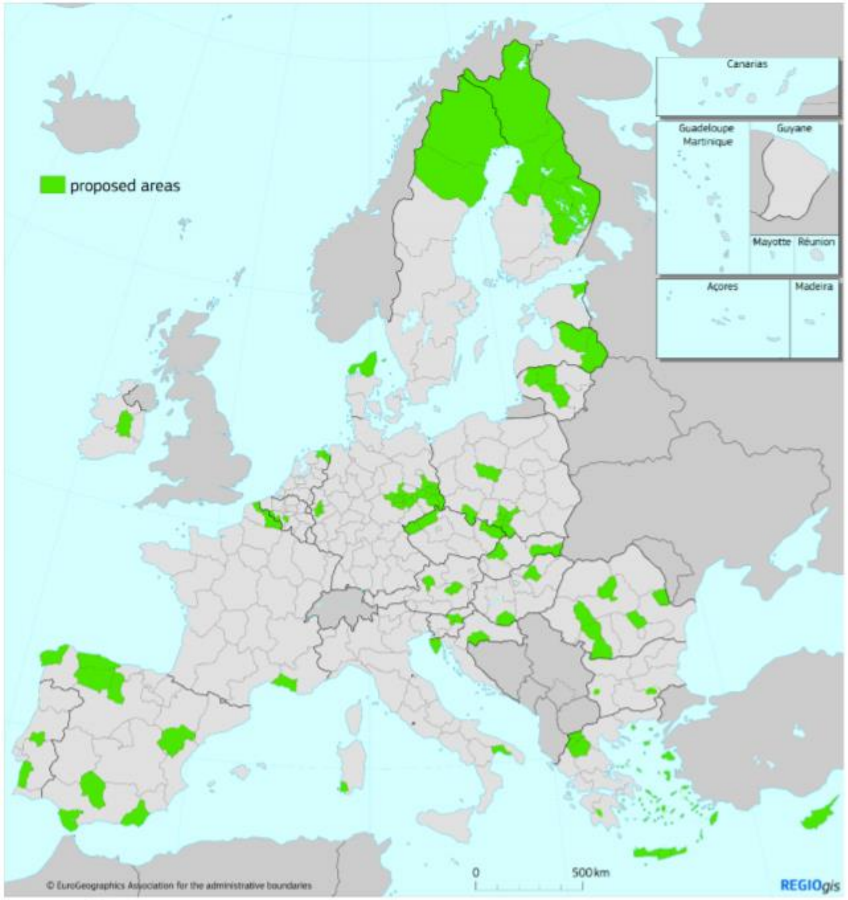
Arguably more significant are the changes to performance, monitoring and evaluation. In a recent guidance document, the Commission has highlighting the key changes envisaged:[17]

- streamlining and reducing the number of policy **objectives**, specific objectives and the contents of the programmes involving a simplification of the **intervention logic**;
- a change in programming and monitoring from a focus on result indicators reflecting impacts to **a focus on result indicators measuring outcomes** (the change for direct beneficiaries)
- a more complete list of common output **indicators** and a new list of common result indicators with the intention to improve the investment coverage of common indicators for transparency, accountability, monitoring, evaluation and communication purposes at regional, national and EU level;
- a reformed **performance framework** will encompass all output and result indicators. It will be one of several factors taken into account in the mid-term review in deciding on the allocation of the flexibility amounts;
- the use of specific objectives for the definition of the intervention logic, combined with **aligned structured data** on result indicators, output indicators and financial inputs (categorisation data) and **more frequent data transmission**; and
- a **simplification of certain evaluation requirements**, notably making ex ante evaluations optional instead of mandatory

Lastly, a new programming development for 2021-27 is the need to integrate the **Just Transition Fund**. The JTF was proposed by the European Commission in 2018 as a third pillar of the EU's Just Transition Mechanism to facilitate the transition of carbon-intensive regions to a low carbon economy. Financially, the JTF comprises €17.5 billion (in 2018 prices), of which €7.5 billion will be financed under the MFF, and the remaining complemented by NGEU, available from 2021 to 2023.[18] [19] These €10 billion are expected to be complemented with Cohesion Policy funds.

To access the fund, Member States must submit **Territorial Just Transition Plans (TJTPs)** to the European Commission, identifying transition pathways and outlining the appropriate intervention logic. Eligible regions within Member States were identified by the European Commission (Figure 1), which recommended tailored priority investment areas of activity per country in Annex D of the 2020 European Semester Country Reports. It also proposed key actions and areas of investment for the JTF in the target regions for all Member States, summarised for EoRPA countries (that are EU Member States) in Table 6.

Figure 1: JTF target 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

Source: *European Commission (2020)*

Table 6: Key actions proposed by the Commission in EoRPA country target regions

Actions	AT	DE	FI	IT	NL	PL	PT	SE
SMEs including start-ups, leading to economic diversification and reconversion	✓	✓	✓	✓		✓	✓	✓
Creation of new firms, including through business incubators and consulting services	✓	✓	✓	✓		✓	✓	✓
Research and innovation activities and fostering the transfer of advanced technologies	✓	✓	✓		✓	✓	✓	✓
Deployment of technology and infrastructures for affordable clean energy, in greenhouse gas emission reduction, energy efficiency and renewable energy	✓	✓	✓	✓	✓	✓	✓	✓
Digitalisation and digital connectivity		✓						
Circular economy, including through waste prevention, reduction, resource efficiency, reuse, repair and recycling	✓	✓		✓		✓	✓	✓
Regeneration and decontamination of sites, land restoration and repurposing projects		✓	✓	✓		✓	✓	
Upskilling and reskilling of workers	✓	✓	✓	✓	✓	✓	✓	✓
Active inclusion of jobseekers		✓		✓		✓	✓	
Job search assistance to jobseekers				✓		✓	✓	
Technical assistance		✓				✓		

Source: *Own elaboration based on Annex D Investment Guidance, European Semester 2020 Country Reports.*[20]

Uncertainty persists as the JTF is still the subject of negotiation at EU and domestic levels. The main concerns among Member States relate to:

- geographical targeting with some countries critical of the proposed geographical coverage;
- the regional distribution of the financial envelope;
- the co-financing rate;
- absorption capacity in some programmes; and
- ensuring cooperation and coherence between different programmes and funding streams.

The Commission has recently published a JTF working document to provide Member States with further guidance on the programming of the territorial plans with respect to eligibility, transition process and challenges, types of operations supported, programming and partnership.[21] This includes further clarification of the Commission's approach to requests for changes to the territories targeted for support (**Box 1**).

Box 1: Territorial eligibility: European Commission red lines

The Commission will not accept proposals to extend the geographical scope to territories where there is no clear transition process with an associated negative socio-economic impact by 2030 or before. Where there is uncertainty about the transition process, a case-by-case assessment will be undertaken subject to two conditions:

- *Phasing out of fossil fuel activities:* minor or partial reduction out of line with 2030/50 target pathways will not be accepted. The reduction must be proportionate and associated with substantial employment impacts.
- *New capacity:* NUTS3 regions should not have access to the JTF where a new extraction or production capacity based on fossil fuels is envisaged after the entry into force of the JTF regulation, unless the activities do not negatively impact the transition pathways.

The specific territories covered by the TJTPs should be coherent geographical areas and reflect functional territorial economic areas involved in fossil fuel activities or GHG-intensive industrial processes.

The Commission will not accept the definition of territories below NUTS3 level that artificially exclude areas to allow the maintenance or increase of fossil fuel activities.

JTF support for regions that rely heavily on peat extraction should be based on the implementation of a transition process with an impact by 2030 or before at the level of the territory for which a TJTP is submitted, based on

1. a phase-out of peat for energy use and
2. a significant reduction of GHG emissions from the extraction of peat.

Source: *SWD(2021) 275 final*

3 THE CHALLENGE OF COMPLEMENTARITY: RRF AND COHESION POLICY

3.1 Complementarities between EU instruments

The European Commission has identified strengthening coordination, ensuring clear demarcation and developing complementarities between EU Funds and instruments as fundamental objectives for the 2021-27 Multiannual Financial Framework.

> *"While there have been positive examples of closer alignment between EU funding instruments in the 2014-2020 period, synergies with sectoral policies and other spending programmes need to be maximised"*[22]

Fragmentation in implementation arrangements across instruments, Funds and levels of governance are considered a persistent obstacle to positive interaction. The new initiatives, RRF and JTF have varying degrees of thematic and territorial overlap with CPR Funds, offering scope for positive interactions but presenting regulatory and governance challenges. The new CPR and the new regulations for other EU instruments include a range of provisions to facilitate coordination, complementarities and demarcation (see Box 2).

Box 2: Key initiatives for complementarity and coordination, 2021-27

Strategic planning/programming. Complementarities and synergies between different EU instruments will be encouraged through the strategic planning process, which will identify common objectives and common areas for activities across different programmes. The content of programmes will be more streamlined and strategic. To harmonise and speed up the programming process and implementation at the beginning of the period, a common programme template for the ERDF, the Cohesion Fund, ESF+ and EMFF programmes and a separate one for the AMIF, BMVI and ISF are annexed to this Regulation.

Transfer of resources. Member States may request the transfer of up to 5% of CP programme financial allocations from any of the Funds to any other Fund under shared management or to any instrument under direct or indirect management.

Complementary and combined funding. Actions awarded a "Seal of Excellence" certification, or which comply with cumulative, comparative, conditions (they have been assessed in a call for proposals under the Programme, they comply with the minimum quality requirements of that call for proposals, they have not been financed due to budgetary constraints), may receive Cohesion Policy support.

Selection of operations by the Managing Authority. MA may decide to grant support from ERDF to seals directly. Co-financing rate of the instrument providing the seal shall apply. Amendment to GBER means no prior notification of these to EC.

Source: ERA-LEARN (2018) Policy brief on the potential coordination between European Structural and Investment Funds and transnational P2P.

Beyond internal interactions and synergies and interaction with RRF, there is a wide range of EU instruments that offer the opportunities for complementarities and synergies with Cohesion

Policy. These include established instruments (e.g. Horizon Europe), where efforts to strengthen complementarities and synergies have already been made in 2014-20.[23] In each case, there are different arenas for exploiting complementarities (regulatory settings, governance arrangements, strategic frameworks and implementation approaches). Key instruments are: Horizon Europe; the Connecting Europe Facility; Asylum, Migration and Integration Fund; LIFE; InvestEU; Technical Support Instrument; Digital Europe Programme; Common Agricultural Policy; EU4Health Programme; European Guarantee Fund; Erasmus+; Customs Control Equipment Instrument; and NICDI.

Notwithstanding the opportunities and obligations for complementarity with these EU instruments, a key challenge for Cohesion Policy is the relationship with the Recovery and Resilience Facility – which has the objectives of promoting short-term recovery and long-term economic and social development. The RRF has implications both for Cohesion Policy programming in 2021-27 and the post-2027 architecture of EU intervention. The following section reviews the progress with implementing the RRF and the relationship of plans to cohesion.[24]

3.2 National Recovery and Resilience Plans

The Recovery and Resilience Facility (RRF) has made €672.5 billion in loans and grants available to support reforms and investments undertaken by Member States. The aim is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions.

Within eight months of the European Commission publishing its first guidance on implementing the Recovery and Resilience Fund, almost all Member States, except for Bulgaria and the Netherlands, had submitted their National Recovery and Resilience Plans (see Table below). Most were submitted between April and July 2021.

The scope of the Recovery and Resilience Fund (RRF) includes among six 'pillars' support for economic, social and territorial cohesion (Art. 3 of the RRF Regulation). In drawing up their National Recovery and Resilience Plans (NRRPs), Member States were encouraged by the European Commission's guidance to undertake investments that contribute to cohesion. Further, in both the Regulation (Art. 28) and Commission guidance, Member States are required to foster synergies and promote strong coordination between Recovery and Resilience Plans and the programming of Cohesion Policy.

Each of the plans was subject to an assessment by the Commission services to ensure that they fulfilled the assessment criteria of the RRF Regulation[25] in terms of:

- **Relevance:** the NRRP represents an adequate response to the economic and social situation and challenges identified in the Country-Specific Recommendations;

strengthens growth potential, job creation, resilience and social rights; does no environmental harm; and contributes to the green and digital transitions;

- **Effectiveness:** the NRRP has the potential to have a lasting impact, with appropriate monitoring arrangements;
- **Efficiency:** a justification of costs and appropriate financial control mechanisms;
- **Coherence:** reforms and investment plans represent coherent actions.

Of the 25 submitted NRRPs, 19 had been approved by the Commission by 23 September, 18 of them adopted through implementing decisions by the Council of the EU, with the adoption of the NRRP for Malta expected to follow shortly. The implementing decisions permits the Member States to sign grant and loan agreements that will allow for up to 13 percent pre-financing.

The Commission's internal assessment of the RRPs approved by mid-September 2021 was that they covered all six policy pillars: green transition, smart, sustainable and inclusive growth; health, and economic, social and institutional resilience; digital transformation; social and territorial cohesion; and policies for the next generation. Most of the plans were judged to be effective in addressing all, or a significant subset, of CSR recommendations but this varied significantly between almost complete coverage in Slovenia, Greece and Portugal to very partial coverage in Luxembourg and Belgium. The NRRPs were considered to be compliant with targets for the green transition and digital transformation, the 'do no harm' principle and committing to enabling reforms. The percentage of expenditure allocated to social measures averages about 27 percent across the approved NRRPs, but ranging from over 40 percent in Portugal and Luxembourg to less than three percent in Denmark.

Table 7: RRF allocations to Member States and submission status

EU Member State	RRF grants (€ bn)	13% pre-financing of RRF grants (€ bn)	RRF loans (€ bn)	13% pre-financing of RRF loans (€ bn)	RRP submitted to COM	RRP approved by COM	RRP adopted by Council
PT	13.9	1.8	2.7	0.4	22 April	16 June	13 July
DE	25.6	3.3			28 April	22 June	13 July
EL	17.8	2.3	12.7	1.7	28 April	17 June	13 July
FR	40.9	5.3			29 April	23 June	13 July
SK	6.3	0.8			29 April	21 June	13 July
DK	1.6	0.2			30 April	17 June	13 July
LV	1.8	0.2			30 April	22 June	13 July
LU	0.1	0.0			30 April	18 June	13 July
ES	69.5	9.0			30 April	16 June	13 July
AT	4.5	0.6			1 May	21 June	13 July
BE	5.9	0.8			1 May	23 June	13 July
IT	68.9	9.0	122.6	15.9	1 May	22 June	13 July
SI	1.8	0.2	0.7	0.1	1 May	1 July	26 July
PL	23.9	3.1	12.1	1.6	3 May		
HU	7.2	0.9			12 May		
HR	6.4	0.8			15 May	8 July	26 July
LT	2.2	0.3			15 May	2 July	26 July
CY	1.0	0.1			17 May	8 July	26 July
FI	2.1	0.3			27 May		
IE	1.0	0.1			28 May	16 July	6 Sept
SE	3.3	0.4			28 May		
RO	14.2	1.8			31 May		
CZ	7.1	0.9			2 June	19 July	6 Sept
EE	1.0	0.1			18 June		
MT	0.3	0.0			13 July	16 Sept	
BG	6.3	0.8					
NL	6.0	0.8					
Total	**340.5**	**44.3**	**150.8**	**19.6**			

Sources: European Commission, Recovery and Resilience Facility – latest news, 23.9.2021; European Commission (2021) The EU's 2021-2027 long-term Budget and NextGenerationEU: Facts and Figures; Council of the EU, press releases 13.6.21, 26.7.21 and 6.9.21.

3.3 Strategic and institutional coordination

The political importance and profile of the RRF, and its contribution to national recovery plans, is reflected in the lead role being taken on NRRPs by Prime Ministers and Ministers of Finance in many countries. Member States with larger allocations generally have an interministerial committee/commission to coordinate relevant areas of NRRP investment. In several cases, the management of NRRPs and Cohesion Policy are in the same ministry, with a view to utilising the same systems and procedures insofar as possible. More common is a separation of management responsibility for the NRRPs and PAs, with various types of mechanisms (working groups, committees etc.) to facilitate cooperation. In countries with smaller allocations, the coordination mechanisms are less institutionalised, relying on operational cooperation between relevant units in different ministries.

In several Member States, the experience during the preparation of NRRPs appears to be one of close and effective cooperation between NRRP and Cohesion Policy departments in the drafting of plans including several cases of integrated drafting of NRRPs and PAs, but this is not universal. One difficulty was the prioritisation of the 'hard' deadline for NRRPs, in some cases leading to the programming of the PAs being partially suspended, given a lower priority and delayed.

The RRF requires engagement with partners (in line with national frameworks), particularly in the preparation of programmes, but this is less of an obligation than the partnership principle in Cohesion Policy. In a small group of countries, regional and/or local governments have actively participated in the development of NRRPs and are envisaged as having a major role in implementation arrangements, although the details are not always elaborated in plans. Elsewhere, subnational actors, civil society and the private sector have been largely involved (so far) only as consultees, at the outset of the drafting process or on draft plans, or project proposers. In part, this reflects the dominance of national measures and the responsibility for reforms and investments at national level.

3.4 Demarcation of funding allocations

Commission guidance recommended that decisions on the use of the RRF versus Cohesion Policy are guided by eligibility, allocations, national/regional competences, the availability of mature projects, and investment size. In practice, decisions on funding under NRRPs or PAs have been influenced by three main questions:

- **eligibility** – what can be financed?
- **absorption** – what can be spent and controlled?
- **administration** – what is manageable to spend within the timeframe?

Other factors that have played a part in decisions are the obligatory links of the planned investment to systemic reforms, the prioritisation of mature projects, and whether the appropriate legal competences are in place to guarantee milestones and targets.

Demarcation of investment decisions is being undertaken according to several criteria, with a mix-and-match approach based on:

- investment scale/type: especially in countries with smaller Cohesion Policy allocations, the RRF is being used to finance national and major reforms and large-scale investment projects, while Structural Funds are being used for smaller projects and soft measures;
- beneficiary size or type (public, private): there is some evidence of RRF use focusing more on larger companies, and Structural Funds supporting SMEs;
- eligibility: RRF is being used to fund investments ineligible for Cohesion Policy either because of thematic concentration conditions, regional eligibility status (MDR/TR) or type of project;
- geography: there are cases where the RRF and Cohesion Policy are each focusing on investments in a different type of region or urban area e.g. using Cohesion Policy to fund wastewater investment in large cities, and RRP for similar investment in smaller towns and rural areas; and
- timing: certain investments are being funded under NRRPs in the first part of the period, and with Cohesion Policy thereafter.

3.5 Economic, social and territorial cohesion

Although economic, social and territorial cohesion are explicitly in the scope and objectives of the RRF, **cohesion does not appear to be a significant objective of NRRPs.** For the most part they follow a 'sectoral logic' with a focus on maximising national economic recovery and growth. Primacy is given to investments that promote the green and digital transitions which require minimum thresholds of expenditure.

Cohesion is noted as a challenge, in terms of the absolute and relative scales and trends in regional disparities, the differential territorial effects of the pandemic, and the specific infrastructure/service problems faced by certain (types of) regions. In most cases, cohesion is (broadly) mentioned among the general objectives / expected impacts of the NRRPs (with reference to Pillar 5), but there is often a lack of detail on how this will be delivered, as well as a lack of performance and impact assessment information.

The Spanish RRP is among a few NRRPs which make cohesion central to the plan. According to the Commission assessment: "Territorial cohesion, together with social cohesion, is one of the four axes on which the plan is built upon, and it is systematically addressed throughout the ten driving policy areas for recovery". The French RRP also makes social and territorial cohesion one of its three priorities, along with the green transition and competitiveness, and under the

NRRP for Slovenia "the social and territorial cohesion dimension is mainstreamed across the plan". For every NRRP, the Commission assessments provide a standard table showing how each of the NRRP components address the six pillars and note how cohesion challenges are addressed. However, the focus is predominantly on social and territorial cohesion rather than economic cohesion.

An **explicit territorial dimension of the RRF is often limited.** Among the exceptions are Member States where there is a part-regionalised approach to implementation (e.g. measures by the Lander and municipalities in Austria and Germany). There are also references to:

- specific regional development objectives e.g. closing the urban-rural gap in providing certain services and infrastructure connections in Austria and Belgium;
- ring-fenced allocations for certain areas e.g. at least 40 percent of RRP investment to be targeted on southern regions of Italy;
- a focus on regional growth centres e.g. in Ireland, enhancing the strategic potential of Cork as a regional economic driver and to act as a counterbalance to Dublin; and
- regional priorities e.g. a focus of RRP intervention on the interior of Portugal, lagging counties in Lithuania, peripheral regions in Latvia, energy transition areas in Czechia, and earthquake recovery areas in Croatia.

However, the form of intervention and the size of any regional envelopes are not clear at this stage in many NRRPs.

A weak territorial dimension of the RRF has potential implications for Cohesion Policy and territorial cohesion, including reducing the role of sub-national levels and undermining the multi-level governance principle. To varying degrees, this has the potential to reduce the place-sensitivity of interventions, widen territorial disparities, undermine the principle of thematic concentration, and limit the territorial element of the European Semester.

Several Member States have acknowledged that **a more explicit territorial dimension may emerge as the NRRPs are implemented**, and in the development of project selection criteria and projects. There is also an important *indirect* impact on cohesion arising from NRRP spending on infrastructure gaps and connectivity deficits (e.g. roads / railway networks, broadband access, digital skills, water management, support for sanitation, urban energy poverty / energy efficiency / heating, urban regeneration, sustainable urban mobility, housing) or addressing social inequalities (social inclusion / poverty, access to healthcare, education), which tend to be in disadvantaged regions, urban neighbourhoods and other localities.

The nature of investment support included in some NRRPs implies spending in **specific types of territories**. Examples include support for organic farming / ecological agriculture / green transition in agriculture; sustainable forest management; revitalisation of former industrial areas; transition of areas affected by phasing-out of coal or lignite; support for tourist regions or regions with specific (e.g. cultural or natural) endowments; specific measures dedicated to overseas territories or islands; targeted support for deprived/lagging towns and villages; and measures related to mitigating climate change and natural hazards.

References to the association of RRF interventions with Cohesion Policy-supported **integrated territorial approaches** are also present in some cases. For example, there are cases of RRF measures intended to be implemented using (or ensuring links with) Cohesion Policy investments under ITI or SUD interventions.

3.6 Complementarities and synergies

The **positive opportunities from complementary action** between NRRPs and PAs are potentially threefold in the view of Member States.

First, although the objectives differ, the significant thematic overlap between the RRF and Cohesion Policy – notably the common focus on green and digital transitions – can be exploited to coordinate investments and achieve additional impacts. Both RRF and Cohesion Policy are powerful tools and cumulatively have substantial investment power in several Member State (see Figure 2 below). They have the potential to enable more articulated and coherent public policies, which are crucial for the effective delivery of European policies and instruments. The Commission's assessments include a standard sentence for all Member States promoting a coherent approach to the territorial dimension of RRPs:

> ***"In order to promote wider coherence across instruments, notably with the European cohesion policy funds, a balanced territorial allocation of resources is encouraged."***

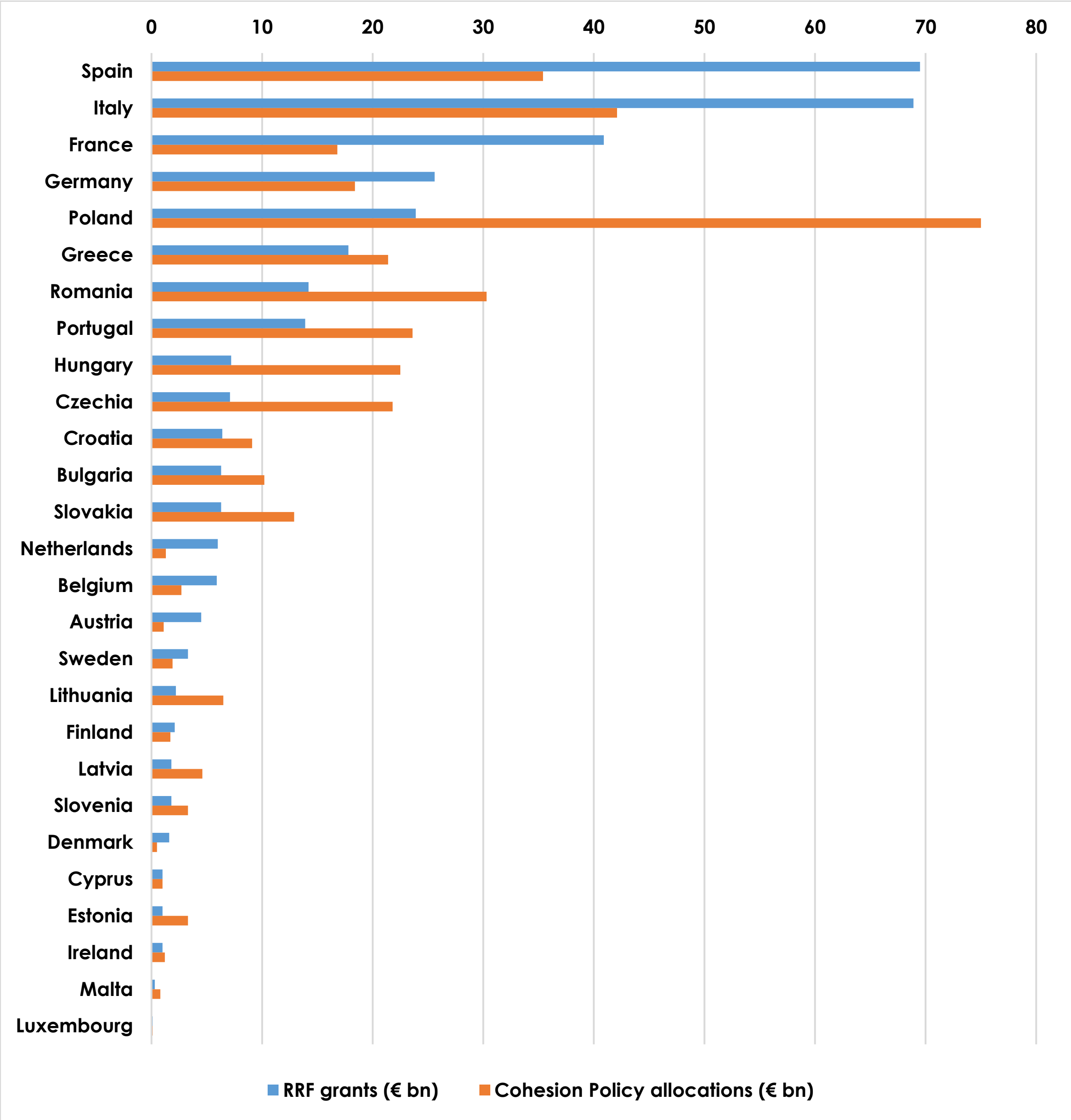
Second, a coherent strategic approach can enable Member States to use the RRF to implement Country-Specific Recommendations that are too broad for Cohesion Policy. The RRF is providing an opportunity to improve the framework conditions for investment (in some countries mobilising long-needed reforms) comparable to the role of enabling conditions in Cohesion policy, that improve the conditions for (and effectiveness of) EU funding. However, Member States perceive substantial challenges in achieving potential synergies.

The demands of effective strategic and operational coordination are considerable, with limited time to embed inter-institutional cooperation mechanisms and effective working relations where these do not already exist. The differences in the PA/OPs and the NRRP drafting timetables are, in some cases, hindering effective institutional coordination, and limiting the scope for synergies.

Third, the use of Cohesion Policy institutional / management and implementation systems and procedures (or their elements) in the implementation of the NRRP measures is in some cases viewed as a way to ensure the synergy of implemented activities, avoid double financing and promote consistency, but the practical application of this may be complicated e.g. due to the lack of necessary resources and capacities.

The Czech NRRP is distinctive in its emphasis on specifying the complementarities of the RRP – both with reference to the 2014-20 and 2021-27 programming periods and across policy areas and type of intervention. Other Member States where Cohesion Policy Funds are emphasised include Latvia, Lithuania, Portugal and Slovakia, whose NRRPs highlight the inter-relationships between EU funding instruments extensively.

Figure 2: RRF grants and Cohesion Policy allocations (€ billion)



Source: European Commission data

The thematic overlap between Cohesion Policy and RRF increases the risk of rivalry and double funding, making clear demarcation crucial for avoiding overlaps. Some themes, including green and digital transition, present particular concerns in terms of overlaps. In addition, the broad scope of RRF thematic coverage is considered to embody complexity making it more challenging to define focus and ensure coordination with Cohesion Policy interventions.

In some Member States, there have been difficulties in overcoming internal perceptions of the RRF and Cohesion Policy as 'investment funds' and a lack of commitment to associated reforms, although the reform commitment has increased in recent weeks under pressure from the Commission.

Although the RRF has demanding rules and conditions on financial control, monitoring and evaluation, audit, etc., they are perceived as less onerous than under Cohesion Policy. Indeed, ESIF have stricter rules in areas such as enabling conditions, monitoring and evaluation, financial management, performance framework and thematic concentration. This may make the possibility of allocating additional resources to the RRF more appealing, to the detriment of the absorption and territorial dimension of Cohesion Policy.

The potential prioritisation of the RRF funding over ESIF due to the pressure on delivering quick implementation / absorption (e.g. emergency nature, shorter lifespan, tight timetable for NRRPs) may reduce attention and capacity to deal with the programming and implementation of the ESI funding 2021-27, contributing to future delays, absorption issues, as well as a reduction of cohesion resources in the post-2027 period.

The possibilities for transferring resources under shared management to RRF raise concerns over shifts in funding away from Cohesion Policy to the benefit of centrally managed instruments, which, along with a reduction of cohesion resources, may increase centralisation at Member State level and undermine the ESIF governance model, based on the partnership principle.

3.7 Outlook

The planning and submission of NRRPs within a tight timeframe represents a substantial achievement for the EU. If the NRRPs are implemented as planned, they will give a substantial boost to investment and reforms, contributing both to the immediate recovery of EU economies as well as supporting the longer term goal of 'building back better' and meeting EU goals for green and digital transitions.

Less clear are the implications for cohesion, and there must be **significant concerns about whether and how NRRPs interact with Cohesion Policy** – for three reasons. First, many NRRPs do not have economic, social and territorial cohesion as an explicit goal. Insofar as cohesion is mentioned, there is a lack of information on how it is interpreted and will be delivered. The involvement of subnational partners and a territorial dimension to planned spending varies greatly across Member States. There are generally no well-defined indications for assessing the cohesion impact of the NRRPs.

Second, the political importance of the NRRPs – often coordinated at prime minister or finance minister levels – and the imperative of the RRF achieving (and being seen to achieve) its ambitious goals may be damaging for Cohesion Policy. Submission of the NRRPs has already been prioritised over the programming of PAs and OPs. The scale of RRF investment support and reforms to be implemented by specific milestones will put administrative capacities under severe strain, potentially diverting resources away from the implementation of Cohesion Policy programmes.

Lastly, there is both **a regulatory and cultural gap between the RRF and Cohesion Policy**. The Cohesion Policy model of multi-level governance, performance framework, and financial management is much more complex than under the RRF. The experience of implementing the different RRF model, with lighter touch regulatory obligations and expectations, is likely to prompt a debate about whether Cohesion Policy rules could be similarly rationalised post-2027. It may also encourage a more prescriptive and centralised approach to Cohesion Policy, weakening further its scope for a place-based policy response to regional and local development opportunities and challenges.

4 THE POST-2027 REFORM OF COHESION POLICY

4.1 Reform timing

The Cohesion Policy reform debate for the post-2027 period is likely to commence in the coming months now that the 2021-27 Regulations have been adopted. While there are six more years till the end of the 2021-27 period and the programme negotiations are in full swing, history suggests that early preparations for reform are necessary because of the complex and lengthy demands of coordinating the development of policy options, and the importance of the agenda-setting phase for structuring reform debate at EU and national levels. The impact of COVID on regional disparities is also becoming clearer with a first comprehensive analysis expected in the forthcoming Cohesion Report, which will add impetus to the launch of the reform debate.

An indication of the expected timetable for post-2027 Cohesion Policy reform can be gained by looking at the timeline of the current period. For the 2021-27 reform, the EU-level debate began in August 2015 – a year and a half into the 2014-20 period – through the presentation of reform questions by the then Commissioner of Regional Policy, Corina Cretu.[26] The inter-institutional debate intensified in 2016 through the mid-term review of the EU budget, and formal legislative proposals were tabled (after delays) on the MFF and Cohesion Policy in May 2018. In line with this timeline and historical experiences, the key expected milestones in the post-2027 reform debate are presented in Box 3.

Box 3: Indicative timetable of post-2027 Cohesion Policy reform milestones

- **Start-2022:** 8th Cohesion Report, analysing territorial disparities including the impact of COVID
- **2022:** Launch and implementation of 2021-27 ESIF programmes
- **2023:** First assessment of CP and RRF spending in 2021-27 and final year of spending of 2014-20 programmes
- **End-2024:** 9th Cohesion Report, presenting Commission reform options
- **End 2024-early 2025:** Impact assessments of reform options
- **March 2025:** Mid-term review of 2021-27 Cohesion Policy programmes
- **Summer 2025:** draft MFF and ESIF Regulations tabled by the Commission
- **Summer 2027:** adoption of MFF and ESIF Regulations by the Council of Ministers and European Parliament

Source: EPRC

4.2 Cohesion Policy reform factors and options

The most important factor influencing reform are decisions on the future of the RRF beyond 2023. The EU has created a major new instrument not just for investment but also for leveraging reforms. It is distinctive in focusing primarily on *national* recovery and growth, with a new governance architecture based on delivering the Country-Specific Recommendations, and managed within the Commission by the Secretary-General and the Directorate-General for Economic & Financial Affairs. As yet, it is uncertain whether the ambitious proposals for investment and reforms will be delivered in practice (particularly reforms likely to be politically contentious), whether the milestones and targets are achievable, and whether financial management and control arrangements are sufficiently robust to withstand scrutiny by the European Court of Auditors.

Nevertheless, the **RRF offers a new model for implementing EU investment** involving a less complex regulatory framework compared to Cohesion Policy, quicker and lighter touch planning, and 'payment by results'. Given that the EU ambitions for a green transition and digital transformation are long-term objectives, there is likely to be pressure for an RRF-type model to be retained after 2023.

Alongside the evolving experience of the RRF is the question of **how well Cohesion Policy has performed in 2014-20**. With respect to absorption, over 100 percent of funding had been committed by the end of June 2021, but only 57 percent of financial resources had been spent – and national expenditure levels were under 50 percent in several Member States (Slovakia, Denmark, Romania). Many EU-level achievements are well behind planned and decided levels. The evaluation programme for the 2014-20 period has just been launched, with the construction of data sets on which to base evaluation. An important question is whether the ambitions of a more robust performance framework, with a clearer intervention logic are translated into better results.

Turning now to post-2027 reform options, a number of scenarios can be envisaged to highlight potential post-2027 reform directions with respect to the financing, objectives, governance and implementation arrangements of Cohesion Policy. These range from the **Current (status quo) model** to a more **Devolved (or 're-nationalised') Cohesion Policy**, with a limited role for the EU. Between these extremes are two plausible scenarios – a **Territorial Cohesion model**, which emphasises the distinct place-based rationale of Cohesion Policy; and a **National Cohesion and Reform model**, drawing on the new Recovery and Resilience Facility. The following section reviews the main features of the reform models, which are then compared in Table 8.

4.2.1 *Status quo model*

The 'status quo' model is **a continuation of the current policy framework**, based on the existing rationale and objectives of territorial cohesion and, in practice, contributing to European semester goals. Funding would be maintained at present levels, including a substantial share dedicated to transition/more developed regions alongside the less-developed regions. The basic governance features would continue with respect to partnership, programming through PAs/OPs, conditionality and payments based on costs. As a consequence, the administration of ESIF would remain relatively bureaucratic with some elements of proportionality based on funding and risk levels, and potentially further simplification at the margins.

The current model has widespread institutional support as it represents the recently agreed reform framework for 2021-27, which already included changes to improve the performance, coherence and administration of funding. However, the impact of COVID, interactions with and competition for funding from other EU instruments, as well as pressures from EU institutions and Members States are likely to call for more radical reforms - at least during the agenda-setting phase of the reform debate when all reform options are put on the table for discussion.

4.2.2 *Territorial Cohesion model*

The 'territorial cohesion model' is also anchored in the existing treaty commitment to territorial cohesion, while contributing to wider EU economic governance goals. However, it would involve **a more explicit place-based rationale and governance architecture *in practice*** that recognises the importance of territorial needs and capacities to address both Cohesion Policy and European semester objectives. In particular, the European semester would adopt a more territorialised approach with Cohesion Policy (and DG REGIO) being a central driving force in the strategic translation of EU territorial needs and policy responses throughout the semester cycle. A place-based strategic vision, such as the Territorial Agenda 2030, would underpin the strategic programming of Cohesion Policy accompanied with high-level and regular EU monitoring, review and debate in the Council to ensure political commitment and added value to the place-based strategy during implementation.

From a financial perspective, this model envisages **increased EU funding** to address the uneven effects of the pandemic and economic fallout on territorial disparities, with **a re-focussing of support in favour of the less-developed regions** relative to more developed/transition regions.

A key governance change would be to **reinforce regional programming** across ESIF funds given the tendency to centralise/rationalise the policy architecture in favour of national programmes with a weaker and less visible territorial dimension in recent reforms. More fundamentally, **macro-economic conditionality would no longer apply** because of the potentially harmful consequences for less-developed regions, while continuing to pursue coherence with the European semester – albeit with a focus on the most relevant country-specific recommendations and on their territorial implications where appropriate.

Based on previous reform debates and negotiations, advocates of this model are likely to include the Committee of the Regions, territorial interest groups, a range of net beneficiaries and the European Parliament.

4.2.3 National Cohesion and Reform model

The National Cohesion and Reform model **mirrors the new Recovery and Resilience Fund**, elements of other centralised EU instruments and to an extent the Cohesion Fund. The focus of ESIF would be on promoting national cohesion and structural/macro-economic reforms linked to the European semester with a less explicit territorial dimension than the previous two models. The targeting of less-developed regions through eligibility or financial allocation criteria would be discontinued to provide maximum flexibility to pursue national growth and reforms. The budget under this model would be reduced, including a more prominent role for loans to be repaid to the EU budget.

With the delivery of European semester goals being the core objective, this model would involve **a more centralised governance approach** within Member States and at EU level including a stronger role for the Council of Ministers in approving plans and national programmes and the discontinuation of regional programmes in favour of a national plan or programme. **Conditionalities would be reinforced** through more automatic and stricter enforcement of sanctions for breaches of macro-economic governance rules and by linking payments to the achievement of all CSRs. Accordingly, disbursement of funding would not be based on real costs but on **progress in the achievement of negotiated targets with milestones.**[27] One option could be to develop the current simplified cost option model requiring agreement between the Commission and Member States on standard costs per output, which may only be feasible by for a more limited scope of Cohesion Policy interventions in practice.

The main supporters of this model are likely to be some net payer countries and parts of the European Commission such as DF ECFIN (given its role in the RRF) and potentially DG EMPL (which has in the past been supportive of a national cohesion approach centred on the European semester). The case for converting Cohesion Policy into "a centralized RRF-like instrument" could be bolstered by the delayed launch of Cohesion Policy programmes and expected slow implementation rate,[28] allowing critics to argue that this model would ensure more efficient spending of EU funding while simultaneously incentivising structural reforms.

4.2.4 Devolved Coordination model

A more radical approach would be a devolved (or renationalised) model of Cohesion spending where the EU would establish overall objectives but the Member States would be solely responsible for the resourcing and implementation of policy responses. The focus would be on policy coordination to support the delivery of European semester goals, national cohesion and domestic regional policy objectives through exchange of experiences. A very limited budget could be available but primarily for territorial cooperation programmes; as a result, explicit regional targeting would be discontinued.

Governance would be devolved based on domestic regional polices and institutional frameworks, with the EU level only involved in coordination through periodic review of national plans. Administrative obligations would therefore be based on domestic systems and rules subject to certain EU obligations (e.g. State aid, procurement and other relevant legislation).

The advocates of this model could include some net payers, which have in the past called for such an approach to be applied to more developed regions. A devolved coordination model for more-developed regions also has similarities with the 'Sapir Report' report proposals in the run up to the 2006 reform.

Table 8: Post-2027 Cohesion Policy Reform options

	Status Quo model	Territorial Cohesion model	National Cohesion and Reform model	Devolved Coordination model
Objectives	-territorial cohesion -Contributing to European semester	-territorial cohesion -Driving a 'territorialised' European semester and 'territorial agenda 2030'	-Delivering European semester -National cohesion	-Delivering European semester -National cohesion -Domestic regional policy
EU budget/ instruments	-Stable budget -Direct grants mainly	-Increased budget to address uneven consequences of crisis/recovery -Direct grants mainly	-Reduced budget -Stronger role for repayable loans	- Very limited budget, for territorial cooperation mainly -direct grants mainly
Territorial targeting	Yes. Focus on less-developed regions, but declining over time in favour of developed/transition regions	Yes. Re-focussing in favour of less-developed regions, with less for developed/transition regions	No. Discontinuation of explicit regional targeting.	No. Discontinuation of explicit regional targeting.
National co-financing	Yes. 15-50% form national sources	Yes. 15-50% from national sources	No. 0% from national sources (100% EU funded)	Yes. 100% national funding, limited EU contribution for territorial cooperation only
Governance	Multilevel. Strong role for regions esp. federal/devolved systems	Multilevel. Strong role for all regions	Centralised. Limited role for regions.	Devolved. Based on existing Member State policies and governance
Budget implementation	Shared	Shared	Direct/indirect	Devolved
Structural Reform Conditionality	Coherence with investment-related CSRs	Coherence with 'relevant' investment and 'territorialised' CSRs	Payments linked to 'all' CSRs	No. Soft coordination only
Macro-economic conditionality	Yes. Discretionary, but increased automaticity	No. Discontinuation of macro conditionality	Yes. Automatic enforcement of sanctions	No. Soft coordination only
Payments	Based on actual expenditure	Based on actual expenditure	Linked to milestones/targets	No.
Programming	-Partnership Agreements -National/regional programmes -Approved by Commission	-Partnership Agreements - more regional programmes -Approved by Commission	-National Plans/programmes -Stronger role for EU / Council of Ministers approval	-National plans -Submitted to EU institutions for information only
Administrative conditions	-bureaucratic, some proportionality (by risk, funding levels) -Minor simplification	-Flexible, proportionality based on risk -Minor simplification	-Flexible -Major simplification	-Full flexibility -Based on domestic systems and rules

Source: EPRC

5 CONCLUSIONS

In landmark budget and policy decisions during 2020, the EU has agreed ambitious objectives and major funding commitments. The challenge is now fourfold. The EU needs to channel investment quickly and effectively to projects that can spur **economic recovery** from the pandemic, manage the social consequences and increase resilience to future shocks. It needs to accelerate a **green transition** to help manage climate change, and **digital transformation.** Both transitions have significant implications for economic development and differential social and territorial impacts. Further, the EU is promoting far-reaching **structural reforms** and stronger EU-level governance in order to improve the EU's long-term development prospects. And the generational challenge for the EU is how to ensure that recovery and the transitions are 'just and fair', recognising the **widening territorial disparities** within many Member States and popular discontent with so-called 'places left behind'.

The past year for Cohesion Policy has been one of consolidation and delivery, translating the 2020 agreements into a regulatory package agreeable to the three EU institutions – Parliament, Council and Commission. **A key challenge is the Policy's future relationship with the Recovery and Resilience Facility (RRF)** which has the objectives of promoting short-term recovery and long-term economic and social development. The RRF has implications both for Cohesion Policy programming in 2021-27 and the post-2027 architecture of EU intervention.

On the ground, **Cohesion Policy has demonstrated impressive speed of reaction to the pandemic.** The CRII/+ packages of administrative flexibilities facilitated liquidity and spending under the 2014-20 programmes. Substantial levels of funding have been reprogrammed and mobilised. However, Coordinating Authorities, Managing Authorities and Implementing Bodies, are now struggling with multiple parallel tasks – in some cases, with over-stretched administrative capacity:

- completing the commitment of resources under the 2014-20 programmes and ensuring drawdown of expenditure and planning for programme closure;
- programming the Partnership Agreements and Programmes for 2021-27, often delayed by the priority given to RRF planning; and
- programming implementation of the Just Transition Fund and REACT-EU, as a bridge between programme periods.

With the ink on the 2021-27 regulatory frameworks barely dry, thoughts are already turning to the longer term. The 8th Cohesion Report is expected to scope out not only the evolving challenges for Cohesion Policy but also 'questions for reflection' about the 2028+ period. Key factors influencing reform are the evaluations of the 2014-20 Cohesion Policy period, the effectiveness and efficiency of the NRRPs, decisions on the future of the RRF beyond 2023, the evolution of the strengthened European Semester process, and how the wider EU funding landscape develops (e.g. the Social Climate Fund).

There tends to be strong path dependency in the evolution of Cohesion Policy, but successive policy reforms have also been marked by important 'turning points' In scoping the parameters for the forthcoming debate. Moreover, the changed socio-economic context in the aftermath of the COVID-19 crisis and the review of the EU economic governance framework currently underway will play an important role in the future of Cohesion Policy, both in terms of the influence on policy priorities and governance as well as the successor to or continuation of the RRF.

Therefore, this paper has set out several potential post-2027 reform directions with respect to the financing, objectives, governance and implementation arrangements of Cohesion Policy. These range from the **current (status quo) model** to a more **devolved (or 're-nationalised') Cohesion Policy model**, with a limited role for the EU. Between these extremes are two plausible models, which are not necessarily incompatible: a **Territorial Cohesion model**, which emphasises the distinct place-based rationale of Cohesion Policy; and a **National Cohesion and Reform model**, drawing on features of the new Recovery and Resilience Facility. Interesting discussions lie ahead.

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