MFF/Recovery Plan crossroads: What a veto would mean for cohesion policy funding

Francesco Molica, CPMR Regional Policy Director, francesco.molica@crpm.org
Eugènia Lleal Fontàs, Policy Analyst, eugenia.lleal@crpm.org

CONTEXT

Tomorrow EU leaders will meet in Brussels for the last European Council of what it’s been a turbulent year. Not on the official agenda, but definitely the elephant in the room, will be the need to move forward with the endorsement of the MFF 2021-2027 and the EU Recovery Plan agreement.

For this, Hungary and Poland have to lift their veto on the own resources’ decision –necessary for the EU to access markets to borrow 750bn for the recovery instruments –. The veto has been wielded due to their opposition to the rule of law conditionality regulation. This has brought the MFF procedure to a standstill. The “Next Generation EU” and the MFF sectorial programmes would be at stake.

There are now increasing signals that an agreement with Poland and Hungary could be reached by the end of the Council meeting. What if this does not happen?

In the last days, numerous European Commission officials and EU actors have raised potential options to overcome the delay on most new spending programmes, if the veto remains after the European Council. In this sense, we go through the referred scenarios and briefly highlight what they could imply for regional authorities and the deployment of cohesion policy funding.

→ Impact on Cohesion policy programmes for 2021-2027

Both current and future cohesion policy programmes could be negatively affected by a protracted stalemate over the MFF 2021-2027. Funding disruptions may occur causing implementation delays. The legal basis for current programmes expires at the end of 2020. At the same time, the deployment of new spending programmes is largely contingent upon the adoption of the MFF 2021-2027. Even if sectorial legislation is adopted, financial commitments for new programmes – including for cohesion policy – would be de facto impossible under the provisional twelfths due to major legal complexities.

Without an MFF agreement the EU will have to work from the 1st of January under the “provisional twelfths” system which means that each budget heading will be funded monthly up to a maximum of one twelfth of the previous year budget. Around 30€ billion would be the loss for cohesion policy with this system for the 2021.
A plan B could be to extend the legal basis of current programmes but the Commission has been hitherto reluctant to go down this road.

However, new cohesion policy programmes may not feel the impact of the absence of an agreement, at least in the first months of the next year. The first tranche of new programmes is indeed expected to be adopted in Spring 2021. If the new MFF is fully in place by then it is very unlikely that funding problems will happen. The same applies to cohesion programmes for 2014-2020. Payments to these programmes by the EU are expected to peak in the next two years to honour commitments made until end 2020.

→ **Impact on the deployment of the EU Recovery Plan**

The veto on the own resources’ decision hinders the EU access to markets with the aim to borrow 750bn € for the recovery instruments. If both Member states persist with their veto, the European Commission could consider alternative solutions to be implemented smoothly to achieve the implementation of the ambitious EU Recovery Plan.

Procedures as enhanced cooperation, where a group of countries can move forward if all 27 countries cannot reach agreement, with the remaining countries permitted to join later if they choose, could be a possible scenario. Another one, could be an intergovernmental agreement outside the EU framework. The need to back up the EU access to the market could be done through a system of national guarantees to back the borrowing of the €750 billion.

The uncertainties in relation to the Recovery Plan pose also a threat to cohesion policy due to the blockage of the REACT-EU, the cohesion policy recovery “top up” with a dedicated amount of €47.5 billion. This instrument is intended to continue and extend the crisis response delivered through the two packages. Without the EU Recovery Plan money, measures planned under REACT-EU are de facto blocked, no matter if Member States and the European Commission are well advanced in their discussion. No final adoption of amended programmes, nor commitments can happen without the 750bn € of the recovery plan.