“Next Generation EU”: a threat to Cohesion Policy?

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In a nutshell

The EU Recovery Instrument, with its massive budget and territorial cohesion among its objectives, raises questions as to how it may influence the implementation of cohesion policy 2021-2027. This note aims to shed light on the potential challenges in this respect.

A concrete risk is that the inevitable prioritization of Next Generation EU funding by Member States could cause delays and complexities on the side of new cohesion policy programmes. Thematic and objectives overlaps might also result in a competition for projects between NGEU and cohesion policy. In the long term, the budget and territorial focus of cohesion policy could also be undermined.

These dangers could be largely avoided if Member States deliver strong complementarity between the Recovery and Resilience Facility and cohesion policy funds and ensure a full involvement of regional authorities.

1. Introduction

The “Next Generation EU” recovery instrument will deliver unprecedented volumes of investments across the EU continent over a relatively narrow timeframe. It is no surprise that many aspects related to its implementation, ranging from the absorption rate to the monitoring of the expenditure, have come under considerable scrutiny in the past months. **Less attention has been paid to the potential implications for the EU programmes under the regular MFF.** Yet the consequences could be sizeable.

In several Member States the allocations under the Next Generation EU would equate or exceed the total budget of the other EU programmes. The simultaneous programming and implementation of such massive amounts through a plethora of instruments could generate complexities as well as delays and overlaps, especially on the side of cohesion policy programmes. Moreover, the provisions governing the Recovery and Resilience Facility and React-EU could in the long-term put into question the core principles of cohesion policy.
2. Next Generation EU versus Cohesion Policy

2.1 Allocations: A good deal for net contributors

The overall size of the EU Recovery Instrument “Next Generation EU” amounts to EUR 750 billion which come on top of the regular MFF and will be borrowed from the markets. The bulk of the resources are channeled via two new ad hoc instruments: the Recovery and Resilience Facility (RRF) and React-EU. The RRF will be allocated EUR 672.5 billion, of which EUR 312.5 billion in grants, whereas React-EU will receive EUR 47.5 billion. The remaining resources will flow into existing programmes such as Horizon Europe or InvestEU.

The share of grants under the RRF is nearly as big as the overall envelope for cohesion policy in 2021-2027 (EUR 322 billion) and would exceed it when factoring in the React-EU resources. Owing to differences in the allocation methodologies, all net contributors’ countries would receive a share of the RRF higher – and in many cases far higher – than the national allocations under cohesion policy (see figure 1).

![Figure 1](Source: CPMR elaboration on European Commission data)
In more developed countries the difference between the RRF and cohesion policy is even more striking in terms of aid intensity per inhabitant (FIGURE 2). In the light of this, it appears inevitable that there will be a debate over the merits of the RRF vis-à-vis cohesion policy, especially in net contributors’ countries. This might have a bearing on the post-2027 MFF.

FIGURE 2 – Source: CPMR elaboration based on European Commission data

2.2 Programming and delivery

The provisions governing the Recovery and Resilience Facility differ a great deal from cohesion policy. Cohesion policy funds are typically subject to a plethora of stringent requirements and intricate procedures to ensure an efficient spending. The resulting administrative burden on implementing bodies and beneficiaries is often cited as a major cause for implementing delays. Simplification measures introduced under the post-2020 framework are intended to tackle this historical flaw, but substantial challenges will remain into the new period.

By contrast, the Recovery and Resilience Facility will rely on a much more agile and flexible set of rules on spending. To be sure, numerous conditions would have to be fulfilled when preparing the recovery and resilience plans. The assessment of the plans and the monitoring of their implementation is also expected to be very thorough. The political pressure to spend efficiently the recovery funding will make Member States face strong scrutiny from their peers in the Council and the Commission services.

Having said that, Member States would have to cope with far less obligations and controls than cohesion policy as regards both planning and spending the RRF resources. For instance, the disbursement of RRF money will be linked to the achievement of general targets whilst cohesion policy payments will continue to be largely based on real costs incurred which entails a much bigger administrative burden. This makes the Recovery and Resilience Facility more appealing to several national governments vis-à-vis cohesion policy. All the more considering that the RRF has a EU co-
financing rate of 100% whereas national co-funding (as high as 60% in more developed regions) is required under cohesion policy.

3. The challenges ahead

3.1 “Different twins”, potential overlaps

The legal basis of the Recovery and Resilience Facility is to be found in article 175 TFEU, which is also one of the articles setting the objectives of cohesion policy under title XVIII of the Treaty. Indeed, the proposed regulation clarifies that the main objective of the RRF is to “promote the Union’s economic, social and territorial cohesion” by mitigating the impact of the crisis. The RRF support shall mainly be directed towards supporting the green and digital transition.

In its Annual Sustainable Growth Strategy 2021 the Commission has provided a more detailed list of 7 areas which should be targeted under the RRF: future-proof clean technologies and renewable energies; energy and resource efficiency of public and private buildings; sustainable, accessible and smart transport; broadband networks and services; digital technologies; digital public services; re- and up-skilling. These areas feature prominently also among the investment priorities of 2021-2027 cohesion policy.

On paper, this should not be a matter of concern looking at the purpose and governance of the two instruments. The RRF is a one-off instrument designed to support the recovery in the short term, albeit it aims to bring about structural transformations in the EU economy to meet its climate and digital goals. On the other and, cohesion policy is a long-term structural policy. In many countries regional authorities are directly responsible for implementing cohesion funding while national governments will keep a central role in the Recovery and Resilience Facility. In addition, it is clarified in the regulation that the Recovery and Resilience Facility shall be additional to the support provided under other Union funds and programmes (art. 8).

However, on closer inspection the parallel implementation of the two instruments makes it difficult to prevent overlaps and complexities. This could result in a damaging competition for projects. Where this happens, the Recovery and Resilience Facility is likely to be preferred leaving cohesion policy programmes struggling for quality projects and slowing down their implementation. Softer requirements and easier administration will play in favour of the RRF.

To be sure, the RRF regulation requires Member States to set up robust coordination mechanisms across the RRF and the other Union’s programmes to ensure consistency and complementarity, and avoid duplication of efforts (art. 22). Synergies are strongly recommended. In fact, several Member States may struggle to achieve this.

As put it in a recent report of the EPRC, “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”1. This “downward competition” might

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affect the strategic orientation of cohesion policy, argues an other recent study for the REGI committee authored by Kai Böhme and Christian Lüer.

3.2 More delays in sight?

The implementation rate of cohesion policy funding has been historically slower than other EU programmes due to its complex governance and provisions. In the current period, cohesion programmes have faced unprecedented delays owing to factors on which managing authorities has had often little control (late adoption of regulations; new requirements such as ex ante conditionalities; Covid-19 crisis). At the end of June 2020 the rate of spending for the three cohesion funds was at between 40 and 45%, a few percentage points lower than at this point in the previous period.

To prevent this scenario from playing out again, the Commission launched in Spring 2019 an early informal dialogue with Member States on programmes 2021-2027 with the view of having the bulk of them already adopted in the third and the fourth quarter of 2020. However, these plans have been derailed by the slow progress of negotiations on the MFF/sectorial regulations as well as disruptions caused by Covid-19. For several months, the focus shifted from the negotiation on new programmes to planning emergency measures or reprogramming under the current period. The Commission now expects the first wave of programmes to be adopted in the second half 2021 (a significant share will be adopted in 2022).

With the Next Generation EU coming into the picture things look even more complicated. Member States must prioritize the programming of the Recovery and Resilience Facility, given that national plans shall be submitted by April 2021, and of React-EU, whose resources shall be allocated and spent within the current programming period. Both instruments have a short lifespan because of their emergency nature, which would force national governments – and often regional ones in the case of REACT-EU – to concentrate efforts on delivering a quick implementation.

This could in turn lead to a decreasing attention and insufficient operational capacity on the side of Member States to deal with the programming of the cohesion policy funds 2021-2027 – and later with its implementation – potentially causing delays.

In a recent blog post Zsolt Darvas from Bruegel has questioned whether all Member States would be able to fully absorb the national allocations under the Recovery and Resilience Facility. Given the political pressure, they will have to focus on meeting the spending targets of the RRF at the risk of neglecting the deployment of their shared management programmes.

Darvas notes that the Commission expects three quarter of payments to be disbursed in 2023 or later. In other words, Member States could still find themselves busy with spending the resources of the RRF at a relatively late stage of the next programming period. As a result, in many countries the implementation of cohesion policy programmes could be affected for most of the financial period.

In addition, the coordination with NextGenerationEU instruments is likely to generate complexities and bottlenecks, mostly to the cohesion policy funding.

3 Darvas, Z. (2020) ‘Will European Union countries be able to absorb and spend well the bloc’s recovery funding?’ Bruegel Blog, 24 September
3.3 Transfer of funds

Pursuant to Art. 6 of the regulation on the Recovery and Resilience Facility Member States can move resources from shared management programmes to the Facility. It is understood that the transfers would be capped in accordance with art. 21 of new CPR (i.e. up to 5% of national envelopes), although the proposed regulation does not specify any ceiling. Regardless, the possibility to allocate additional resources to the Facility may look tempting to national governments because of its loose rules compared to cohesion policy.

The logic behind moving resources from shared management to other EU direct management instruments has been called into question in different ways. It may harm the distributional and territorial dimension of Cohesion Policy funding. That applies also to the Recovery and Resilience Facility.

3.4 European Semester

A stronger link between the European Semester process and cohesion policy for the 2021-2027 is clearly defined in proposed regulations. A series of provisions mainly in the Common Provisions Regulation present the Semester process as the framework through which investment priorities for cohesion policy will be recommended by the European Commission. As an example, the European Commission presented the cohesion policy 2021-2027 investment guidance, the so-called “Annex D” as part of the Semester country reports on February 2019 and for the Just Transition Fund via the Annex D bis in February 2020.

The Recovery and Resilience Facility will not be given priority in the framework. In line with the Commission Annual Growth Survey, the recovery and resilience plans will be the key economic policy document that will guide Member States investments. The Commission assessment of it will replace the European Semester country reports in 2021 and no country-specific recommendations will be drafted in 2021. Additionally, country-specific recommendations established in the 2019 and 2020 Semester cycles are considered to be relevant for drafting the recovery and resilience plans but also to programme cohesion policy funds.

Whether the Recovery and Resilience Facility and cohesion programmes will be complementary or end up overlapping depends also on how the European Semester framework will be used to steer the respective investments. This will be specifically relevant in 2024, when country specific recommendations should be considered for the cohesion mid-term review and by then the Facility will be still in place.

3.5 Implications of React-EU on cohesion policy

The Recovery Plan will allocate EUR 47.5bn to cohesion policy programmes under the current period. The resources should be mainly used for crisis-repair measures and are subject to the same simplified procedures and lower requirements applied under the Corona Response Investment Response packages. The decision to channel a share of the recovery fund into cohesion policy is a positive element. On paper it is consistent with the Commission pledge to focus on the territorial dimension of the crisis by directing the funding toward worst hit regions.

However, the provisions governing React-EU depart at least partially from this purpose. No territorial earmarking has been envisaged for the additional funding, leaving national governments full scope to
decide the domestic distribution of the resources. The Commission has sent formal letters to Member States recommending that the core principles of cohesion policy be fulfilled in the domestic allocation. But there is no specific requirement forcing them to do so. CRII and CRII+ had already introduced unprecedented flexibility as regards the possibility for Member States to move funding from a category of regions to the other.

These flexibilities cast a shadow on the future of cohesion policy even though the regulations for 2021-2027 will partially restore the pre-crisis provisions. The role of national governments might come out of this crisis more strengthened vis-à-vis regions putting at risk the place-sensitivity of cohesion policy interventions. In many ways the new regulations may be facilitating this shift of paradigm. Another key question is whether the cohesion policy response to the crisis is putting in question the purpose and long terms goals of the policy.

4. Conclusion

This note focuses on the short-term challenges for cohesion policy arising from the implementation of the recovery package. It is equally important to look at the implications in the long run. The idea of turning the RRF into a permanent instrument is slowly emerging in the debate. It has been even floated in a recent report of the European Central Bank. After all, the RRF has replaced – and is partially modelled on – two permanent instruments proposed in the pre-crisis MFF to support structural reforms and investments: the Budgetary instrument for convergence and competitiveness for the euro area (BICC) and the Reform Support Programme (RSP).

A renewal of the RRF in the post-2027 MFF, albeit with a different name and shape, could have a dire impact on the budget of cohesion policy. Cohesion Policy could be cut to accommodate the new instrument into the regular MFF (it is unlikely that the new instrument will continue to be financed through external assigned revenues).

Many net contributors would be ready to support this arrangement considering that the funding of the RRF is much easier to handle. One possibility is that the scope of Cohesion Policy could be restricted to less developed countries leaving the new RRF replace it in the other countries. Even if the RRF or an RRF-like instrument is not extended into the post-27 period, it cannot be ruled out that the future framework of cohesion policy is rearranged to resemble the RRF governance and delivery mode, consolidating an already existing trend towards more flexibility and centralization.

The risks highlighted in the previous paragraphs could be largely avoided. This will depend upon Member States capacity to deliver a strong complementary and coordination between the RRF and cohesion policy funds. The European Commission must do its part in assessing and monitoring the implementation. It is also evident that a full involvement of regional authorities in the deployment of both the RRF and REACT-EU would be instrumental in reducing overlaps.