Cohesion Policy as an emergency-response instrument: A boon or a bane?

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In a nutshell

- The fallout of Russian invasion into Ukraine will test anew the capacity of cohesion policy to address unforseen emergencies. Adjustments to the Common Provision Regulations for 2014-2020 have been put forward to facilitate, *inter alia*, a quick deployment of cohesion funds for the Ukrainian refugees. This adds to the flexibilities introduced through the CRII packages and REACT-EU amid the pandemic. An "emergency clause" has also been included in the 2021-2027 regulation.

- These regulatory changes might accelerate a paradigm shift linked to the very rationale of cohesion policy: from being a long-term investment policy to incorporating a more or less important crisis-response feature on a permanent basis. In the 8th Cohesion Report the Commission acknowledges that cohesion policy should deliver both tasks in the future.

- But questions arise about the implications in the medium and long term. Does a role in tackling emergencies imply eroding the very identity of cohesion policy as a long-term investment policy making it more vulnerable to budgetary cuts or a "weakening" reform in the future? Or, viceversa, will it help preserve a strong cohesion policy in the post-2027 MFF by showing a new added value which may appeal to skeptics of cohesion funds?

- These questions should feature prominently in the debate on the future of cohesion policy.

1. Introduction

The fallout of the Russian invasion into Ukraine will test anew the capacity of cohesion policy to address emergencies and more broadly its role vis-à-vis major crises. The Commission has recently put forward further adjustments to the cohesion policy legislation for 2014-2020 (whose funds can be spent until 2023) designed *inter alia* to facilitate a quick deployment of funds, including under REACT-EU, for the assistance of Ukrainian refugees. The proposals, renamed "Cohesion's Action for Refugees in Europe " (CARE), add to flexibility measures adopted amid the pandemic via the so-called CRII and CRII+ packages as well as REACT-EU (whose additional money flows from the Next Generation EU recovery instrument). These flexibilities were aimed at directing or re-purposing cohesion funds to address the health emergency and its economic impact.

Going forward, the potential economic and humanitarian ramifications of the military aggression to Ukraine (e. g. disruption of energy and food supplies) could pile further pressure on the Commission to allow more flexibility under the 2021-2027 regulation. **This may in turn accelerate a paradigm shift linked to the very rationale of cohesion policy: from being a long-term investment policy to incorporating a permanent and more or less substantial crisis-response feature**. In the 8th Cohesion Report the Commission acknowledges that cohesion policy should deliver both tasks in the future. **But questions arise about the implications**. **Does this change foreshadow a threat to cohesion policy? Or will it help cohesion policy maintain a central role in future MFFs?** This paper will discuss both views.

2. How it started

The question as to whether cohesion policy should provide a short-term response to negative shocks predates the pandemic. At the height of the refugees crisis in 2015, the Commission invited member states to tweak programmes so as to earmark more funding for integration. Most managing authorities were seemingly deterred from choosing this option by the lengthy process for reprogramming, which did not look optimal at the time as programmes had just been adopted. A seed had been planted though.

Indeed the issue resurfaced in the course of debate the over the post-2020 cohesion period. **Multiple stakeholders, including the European Parliament[1], called for the creation of a mechanism or reserve designed to ensure programmes could react swiftly to unforeseen challenges and emergency situations**. The plea was echoed in the recommendations of the High Level Group on Simplification post-2020 set up by the European Commission to advise on how to streamline the future regulation. But it did not make it to the Commission's proposal, nor to the final text adopted in July 2021.

Instead the Commission proposed to establish a "flexibility amount": an envelope allocated to programmes in the last two years of the period to finance emerging priorities identified in the course of the mid-term review (article 18 and article 86 of new CPR). **The truth is that the idea that cohesion policy could be extensively used for emergencies did not seem to enjoy much support across the Commission and several Member States**. Then the pandemic struck and everything changed.

3. The pandemic, a turning point

Since the early days of the pandemic the Commission came under heavy pressure to concoct a swift financial response at EU level. The room for manoeuvre was very narrow as both the rigid structure of the MFF and its timeframe did not permit the deployment of adequate amounts under the contingency margins and flexibility instruments in the MFF. **Thus tapping into cohesion policy to secure funding for early crisis-mitigation measures was motivated by a lack of alternative options. It was a choice made out of pragmatism, rather than conviction.**

The main reason was that cohesion policy was still sitting on a considerable share of unused resources under the 2014-2020 MFF. It had also the advantage of being directly managed at national and regional level facilitating a more targeted and speedier action. But its provisions were somewhat ill-suited for a crisis scenario. Therefore **the Commission had to introduce major changes to the regulation by means of the two CRII and CRII+ packages**.

[1] European Parliament's REPORT on building blocks for a post-2020 EU cohesion policy, https://www.europarl.europa.eu/doceo/document/A-8-2017-0202_EN.html

A trade-off had to be made though: making the rules much more flexible entailed a partial departure or derogation from defining features of cohesion policy such as the territorial earmarking, the partnership principle, the thematic concentration. At the time, the move made cohesion policy gain visibility and present itself as an effective policy.

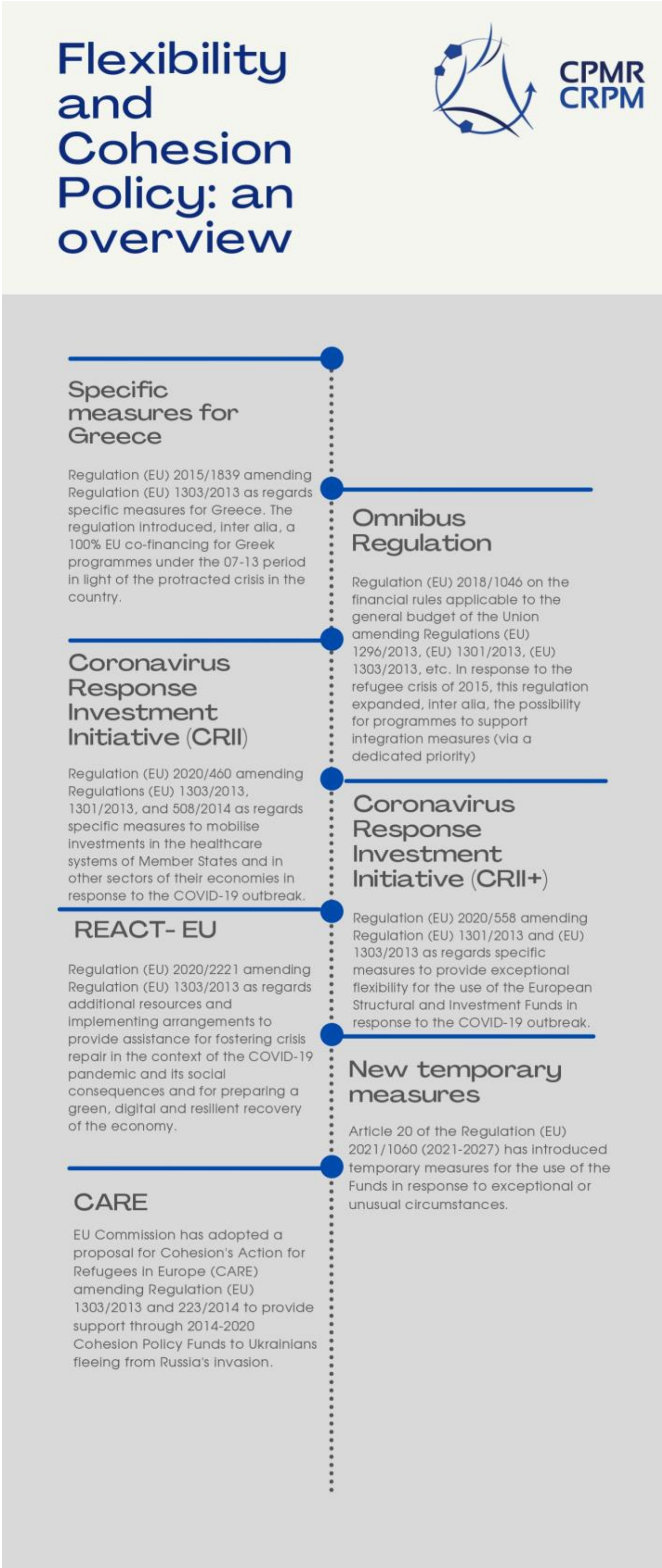
Though this is a little anecdotal, it is possible that the CRII initiative changed the fortunes of cohesion policy as the final MFF agreement reached after the COVID outbreak allocated to cohesion policy a considerable amount of resources despite hefty cuts discussed in previous rounds of talks.

4. Flexibilities are here to stay

At the time the Commission was keen to stress that CRII and CRII+ had only an exceptional and temporary nature. Yet their legacy turned out to be far-reaching.

For a start, a similar set of flexibilities was established under the React-EU instrument. In addition, the CARE package did extend the 100% EU co-financing for one more year. More importantly, the pandemic resulted in adjustments to the regulation on 2021-2027 cohesion policy which echo some elements of the two CRII packages:

1) A provision was added in the new framework whereby Member States can request the application of certain flexibilities in the vein of CRII/CRII+ in case of new negative shocks.
2) A higher share of resources, compared to the initial proposal, can be re-programmed without requesting prior approval of the Commission.
3) The possibility to transfer resources across funds and categories of regions has been significantly expanded.



Own elaboration by CPMR (Lorenzo Metrangolo)

Moreover, both CRII/CRII+ and CARE set a precedent in that they show the Commission is now prone to propose quick changes to the regulation in the face of crises. It cannot be ruled out that the impact of Russian war to Ukrainian may lead to further changes to the 2021-2027 regulation.

5. Is this a boon or a bane for the future of cohesion policy?

Up to now the flexibility measures introduced via the CRII and CRII+ or React-EU have proved largely beneficial winning plaudits from both national and regional governments. They have shown that cohesion policy can be effectively deployed – and, no doubt, will be increasingly deployed – to address unforeseen emergencies. **This suggests that providing a short-term response to crises may become a permanent feature of cohesion policy alongside its traditional role as a longterm investment policy supporting structural interventions**. As highlighted above, the Commission gives an explicit nod to this option in the 8th Cohesion Report.

There is a pessimistic and a optimistic way to look at the impact of this shift on the future of the policy. Both these views should be considered against the backdrop of daunting challenges facing cohesion policy: unprecedent implementation delays under the new period; an increasing fragmentation that may offset the simplification drive introduced with the new regulation; ultimately, a possible extension of the RRF or mainstreaming of its features in cohesion policy.

The pessimistic view: Tilting cohesion policy towards a crisis-response role, albeit partially, may not only divert funds from the goal of tackling disparities, but also lead to an erosion of its peculiar features**. As we have seen, enabling programmes to respond to unforeseen shocks entails granting substantial flexibility, which in turn demands to various extent a less stringent application or sheer exemption from principles that form the backbone of cohesion policy**: territorial earmarking, partnership principle, thematic concentration, national co-financing, and ultimately the programming method (to name a few). These aspects, to put it simply, may represent a constraint when one needs to quickly deploy resources for crisis mitigation.

However, they also play a key role in guaranteeing that cohesion policy fulfils effectively the goal of tackling economic and territorial disparities as enshrined in the Treay on the Functioning of the EU. **In other words, departing from these principles, by stretching too much the boundaries of flexibility, may weaken cohesion policy very identity as a long-term investment policy delivering regional development. This will make it more vulnerable to budgetary cuts or a "weakening" reform in the future** as it might be more difficult to demontrate its added value, especially *vis-à-vis* other competing instruments. Why bother to keep a strong cohesion policy when other programmes can do the same?

One additional risk is that the emphasis on crisis mitigation may result in programmes with a slow implementation rate to be used more widely for tackling emergencies at the expense of their longterm goals or even losing resources to other programmes (by using new provisions on transfers).

The optimistic view: Tilting cohesion policy towards a crisis-response role, albeit partially, may ultimately lead to preserve and embolden it in the future. Thematic overlaps between cohesion policy and the Recovery and Resilience Facility are significant. Both provide long-term investments. Legally speaking, they share the same legal basis although social and territorial cohesion is not the primary objective of the RRF despite featuring in its 6 pillars. **The growing demand to establish a permanent fiscal capacity at EU level (aka an RRF 2.0) could thus mislead many into seeing cohesion policy as somewhat redudant**. Certainly it would be difficult to justify two parallel funding streams or instruments of this size, despite significant differences, especially if a RRF 2.0 is accommodated into the regular MFF and not financed by going again on the markets.

Of course, cohesion policy will not disappear, but it risks being pushed aside to a less relevant or marginal role with a smaller envelope and geographical scope. Giving to cohesion policy a structural role in addressing crises may help avoid this scenario, strengthening the case for preserving a sizeable envelope. **In fact, the role of cohesion policy in tackling emergencies could appeal to decision-makers and governments that are traditionally skeptical towards the policy.** Second of all, at the end of the day the fallout of unexpected crises could aggravate the existing territorial disparities. If cohesion policy were to finance actions to react to these crises, it would still be supporting territorial cohesion. Finally, there is a way to reconcile more flexibility with preserving the core cohesion policy principles. The two do not contradict each other.

These opposing views should be carefully pondered in the framework of the debate on the future of cohesion policy. Any such reflection should assess:

- where should the balance lie between longterm and shor-term objectives;
- how flexibility and simplification can be introduced without harming the core principles of cohesion policy;
- whether other instruments in the MFF specifically intended for crisis-response are more well suited than cohesion policy and should be reformed and reinforced.
- whether a permanent reserve (akin to the proposal from the European Parliament in 2015) should be considered within the next MFF to address unforeseen needs emerging from a crisis.

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