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**Subject: Additional resources of the REACT-EU in support of Cohesion Policy programmes (ERDF, ESF, FEAD) for the programming period 2014-2020**

Dear Minister,

The socio-economic consequences of the COVID-19 pandemic have threatened the development prospects of Member States and regions. The crisis has affected many sectors, resulting in a sharp decline in output, putting jobs at risk and limiting national and regional capacities for public investments necessary for the economic recovery. It has also worsened the social inclusion prospects for the most vulnerable and the most deprived.

At the start of the COVID-19 pandemic, the co-legislators have promptly adopted the Coronavirus Response Investment Initiatives (CRII and CRII+) proposed by the Commission to provide additional budgetary liquidity, flexibility and simplification for Cohesion Policy Funds.

Following the welcome political agreement between Member States on the multi-annual financial framework for the period 2021-27 and on a recovery powered by Next Generation EU - and notwithstanding the need for the European Parliament's agreement as well as the co-decision procedure on the Commission's proposal for REACT-EU - it is important to start preparing for the most effective and efficient use of these additional investment possibilities.

Ms Maria Jesús Montero Cuadrado, Minister for Finance

SPAIN

As part of the Next Generation EU instruments, REACT-EU – with its EUR 47.5 billion budget<sup>1</sup> – will aim to bridge the gap between the emergency crisis response offered by CRII and the long-term green, digital and resilient recovery supported by Cohesion Policy 2021-27. It will focus on strengthening the resilience of healthcare systems, preserving and creating employment, in particular for the young people, supporting the poorest of our society, and providing working capital and investment support for small and medium sized enterprises, while laying down future-proof foundations for the digital and green transitions and a sustainable socio-economic development.

Our joint challenge is to alleviate the social impact of the crisis and to support the most affected regions in the remaining three years of the current programming period. Therefore, flexibilities, scope and operational setup of current cohesion programmes should be leveraged to their full potential to direct additional funding under REACT-EU.

Herewith, we would like to emphasise the criteria and principles that the Commission considers fundamental in the territorial distribution of this funding.

Firstly, resources under REACT-EU for the ERDF, the ESF and the FEAD have to be implemented in line with the Treaty objectives of economic, social and territorial cohesion. As highlighted in the proposal for the REACT-EU Regulation, these resources should clearly target the geographic areas whose economy has been hit the hardest by the pandemic and that have the least capacity to bounce back on their own. Due focus on the less developed regions should be maintained, as well as on the outermost regions. Member States, which would choose to set up a programme at national level for the implementation of these funds, should specify how this would benefit the most impacted and less developed regions.

Secondly, the recovery should be future-oriented and resilient, calling for a strong emphasis on the green and digital transitions. The country-specific recommendations issued in the context of the European Semester in 2020 identify specific priority areas for frontloading public investment to facilitate economic recovery.

Thirdly, the partnership principle remains a cornerstone of Cohesion Policy, ensuring involvement of social partners and civil society organisations in planning and implementation. The relevant partners and regional authorities should be involved in the programming of REACT-EU.

In terms of investment focus, we believe that each of the three cohesion funds is best suited to provide support along the following domains:

- ERDF: should primarily support investment in products and services for health services, SMEs in the form of working capital or investment support, investment contributing to the transition towards a digital and green economy, investment in infrastructure providing basic services to citizens and economic measures in the regions that are most dependent on sectors most affected by the crisis.

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<sup>1</sup> As agreed at the special meeting of the European Council of 17-21 July

- ESF: should primarily support job maintenance, including through short-time work schemes and support to self-employed, job creation, in particular for people in vulnerable situations, youth employment measures, education and training, skills development, in particular to support the twin green and digital transitions, and enhancing access to social services of general interest, including for children.
- FEAD: The REACT-EU proposal also aims at providing additional support to the most deprived as this target group was disproportionately hard hit by the COVID-19 pandemic. Additional resources can provide top-ups to the existing support to the most deprived, such as food and/or basic material assistance or social inclusion programmes. The voluntary transfer from the additional national allocations towards the FEAD programmes, in line with the specific needs in each Member State, will be a concrete and visible contribution to EU solidarity with the most vulnerable. In assessing the needs to reinforce the FEAD programmes, particular attention should be paid to the increases in the number of the most deprived since the outbreak of the COVID-19 pandemic.

While the Commission perceives these investments as the most suitable for REACT-EU, other actions can also be co-financed from the additional resources, as long as they contribute to the achievement of the new thematic objective / investment priority and they fall within the scope of support of the ERDF, ESF, or FEAD, as defined in the Fund-specific Regulations (and as amended by the CRII modifications recently). All investments should be in line with the sectoral strategic frameworks, as far as these strategies are still relevant and conducive to crisis repair.

REACT-EU resources can have a real impact if put to use immediately and in line with the current programming period until 2023. Swift programming of resources and execution of the operations have to be ensured. This implies focusing on measures that allow for achieving the maximum effect on sustainable growth and jobs and, at the same time, are channelled through efficient schemes and project pipelines towards the real economy as quickly as possible.

In order to facilitate the re-programming process, the following three guiding principles should be taken into account:

1. The **‘do no harm’ principle** is a key commitment under the European Green Deal. Unsustainable and outdated solutions that undermine the transition to a circular and climate-neutral economy would not be consistent with our common priorities. The principle of supporting future-proof and sustainable investments applies to all sectors.
2. REACT-EU should **address the setback suffered by the current programmes as a result of the COVID-19 pandemic**. The lockdown has stalled many projects that were under way. Programme modifications under CRII aimed at mitigating the immediate effects of the COVID-19 crisis sometimes resulted in reductions in allocations for operations or (regional) programmes that are crucial for the long-term green and digital transition. The REACT-EU creates an

opportunity to put these investments back on track. The existing project pipelines in these areas of support should be used. The special European Council of 17-21 July also decided that due to the exceptional circumstances, relevant actions which started from 1 February 2020 onwards should be eligible for financing under REACT-EU provided they pursue objectives of the respective programmes.

3. Some investments can address the negative socio-economic consequences of the pandemic, while facilitating transition towards a green and digital economy and more resilient societies. REACT-EU should **support ‘win-win’ opportunities** of this kind.

Reflecting these recommendations in the programme amendments or new programmes will facilitate the re-programming process, decreasing the need for the Commission services to provide observations. Our services are ready to engage immediately in upstream dialogue, without waiting for the formal adoption of REACT-EU.

The additional resources will provide a much-needed investment boost at the juncture of the current and the future programming period. At the same time, efforts to launch the 2021-2027 programmes as soon as possible have to be continued, ensuring a smooth transition and full continuation of the investment efforts and mitigating the negative impact of the crisis on the most vulnerable groups and areas. We would like to take this opportunity to call for a quick adoption of the REACT-EU proposal as well as the legislative framework for the period 2021-2027.

Yours sincerely,



Elisa FERREIRA



Nicolas SCHMIT