



Issue paper 9 – Enhancing Cohesion Policy's capacity to respond to shocks and crises

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Group of high-level specialists on the future of Cohesion Policy

The European Commission, the Directorate-General Regional and Urban Policy (lead) and the Directorate-General Employment, Social Affairs and Inclusion (associated) have set up a High-level Group on the future of Cohesion Policy. The group includes members from academia and practice and in 2023 will meet nine times to reflect on current and future needs and the functioning of Cohesion Policy.

The group will offer conclusions and recommendations that will feed the reflection process on Cohesion Policy post-2027 including through the 9th Cohesion Report in 2024 and the mid-term review of Cohesion Policy programmes in 2025.

Disclaimer

The opinions expressed in this paper are the sole responsibility of the authors and do not represent the official position of the European Commission.

Contact

EUROPEAN COMMISSION
Directorate-General Regional and Urban Policy

Unit B.1 — Policy Development and Economic Analysis

E-mail: REGIO-FUTURE-COHESION-POLICY@ec.europa.eu

European Commission

B-1049 Brussels

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1 Background and objectives

As the main investment policy in the EU, Cohesion Policy is critical for long-term transformation, competitiveness, and addressing economic, social and territorial disparities between EU countries and regions, as well as to increase the balance, strength and resilience of the internal market. By programming resources over seven years, it aims to meet the development needs of countries and regions, while allowing for flexibility in adapting to their evolution.

Over the last two decades there has been economic convergence between EU Member States and EU regions, mainly because less developed regions have been catching-up. However, successive crises since 2008, from the financial and sovereign debt crisis to the migration crisis, the pandemic and the consequences of the war in Ukraine, including the energy crisis, have slowed convergence. Legislative amendments to the Cohesion Policy regulatory framework were adopted in record time to respond to recent crises, including REACT-EU, CRII, CRII+, CARE packages and SAFE. More details were presented in Issue Paper 8. The impact of these interlinked crises would have been much greater in the absence of Cohesion Policy and its adaptability, which has continued supporting employment and investment, especially in the EU's most vulnerable regions. Additionally, Cohesion Policy has provided constant investment flow during sharp reductions in national public spending, especially from 2008 to 2015 with the financial and sovereign debt crises, and again during the pandemic (more than €210 billion disbursed since February 2020).

The policy's adaptability has been demonstrated in the last years, by stepping in to help in these crises and alleviating their socio-economic consequences – with a special attention to less developed regions. This has minimised longlasting impacts that would result in increasing disparities and further damaging the EU's socio-economic fabric. For example, in order to respond to the Covid-19 crisis, CRII and CRII+ allowed for crucial investments in the health sector, financing testing, supporting hospitals, and purchasing additional medical equipment. It supported the business sector by providing working capital to SMEs, facilitating digitalisation and setting up or redesigning financial instruments, and supported people by financing employment retention schemes, the digitalisation of schools and support for vulnerable groups.

At the same time, the capacity of Cohesion Policy (less than 1% of EU public expenditure) to contribute to Member States' measures in times of crises is limited.

Moreover, we should bear in mind the long-term investment nature of the policy, that needs to remain its main focus.

This paper focuses on the flexibility and responsiveness Cohesion Policy has developed lately and key lessons learned.

2 Flexible Cohesion Policy

Existing Cohesion Policy mechanisms already enable new developments to be taken into account, in particular through amending programmes. This flexibility has increased over time through quick legal amendments in response to various challenges, including economic crises and unexpected shocks, notably in the areas of emergency management, recovery and prevention. Key aspects include:

Reallocation. Cohesion Policy funds can be reallocated between and within programmes in a relatively easy way. Member States have discretion over how they allocate and implement EU Cohesion funds as far as they remain consistent with the overall objectives of the Policy. This enhances the Policy's adaptability to changing circumstances in each country.

Mid-term review. Since the 2014-2020 programming period, there is an assessment at mid-term which involves the possibility to review the programmes. The 2021-2027 mid-term review allows for the flexibility necessary to adjust programmes to emerging needs and challenges. As part of this strategic review, programmes are allowed to reallocate 50% of the budget of the years 2026 and 2027.

Exceptional or unusual circumstances. The 2021-2027 CPR allows for temporary measures in response to exceptional or unusual circumstances. These can be for 18 months at most, to help Member States react to events outside of their control. Measures may include increased interim payments, support for operations that have been completed or fully implemented before the application for funding, or the extension of deadlines to submit documents and data.

Lack of EU-level crisis reserve. Cohesion Policy, given its overall financial volume, is the most important part of the EU budget that can be mobilised to address various aspects of unexpected shocks but also to address new political priorities. This is due to the lack of an allocated EU-level reserve. Consequently, Cohesion Policy is often perceived as a source of emergency funding. This may lead to the reallocation of funding from measures serving long-term structural changes, which, if done in a recurrent manner, may hamper the effectiveness of the policy and its credibility. The implementation cycle of Cohesion Policy may lead to this misperception, given that the bulk of expenditure is typically concentrated over the last third of the programming period.

Crises, by their very nature, come unexpected. However, Member States in particular need to scan regularly their local and regional level needs and capabilities - to detect in time "signals of vulnerability" that can affect economic

convergence. Some of them, for example, may be linked to the elements of green and digital transition or the consequent transformation of industrial value chains.

3 Limits to flexibility and reactivity

Recent crises have also illustrated important lessons including:

Instability and uncertainty. Multiple legislative changes have an impact on Cohesion Policy: the accommodation of new priorities and the increased number and pace of programme amendments are perceived as a lack of stability and certainty. In this process of permanent adaptation, it becomes challenging to maintain the link between the programmes and the objectives of Cohesion Policy. It also stretches administrative resources in charge of policy development and implementation.

Increasing complexity in the architecture of EU funds. In response to recent crises and new EU policy objectives, new EU instruments and tools have been created. These were purpose-built to respond to particular needs. New instruments with different rules and delivery modes complicate the architecture of EU funds. The resulting situation leads to increased administrative workload and complexity, with a more complicated landscape for beneficiaries and programme authorities. It raises questions regarding overlaps between objectives, scope of intervention and eligibility, competing project pipelines and limited administrative resources.

Long-term perspective. Cohesion Policy is well-established to pursue long-term EU objectives of structural change. Crisis-led adjustments to the policy entail the risk that short-term projects with quick expenditure are prioritised over strategic long-term investments. Still, one of the lessons from the crises is that a combination of short-term reaction and long-term framework is the essence of adaptive and transformative resilience for regions and Cohesion Policy itself.

Flexible programming. Although it is still too early to draw lessons from the mid-term review and the impact of recent temporary derogations in the regulation, it is worth considering the potential for increasing implementation flexibility from the beginning of each period. New flexibility mechanisms should allow Cohesion Policy to react to emergency situations, while also preserving its long-term role. Also, strengthening in-built policy mechanisms to support Member States and regions during crises could reduce legislative instability and administrative burden resulting from programme modifications. Increased flexibility, if agreed, should not result in higher complexity. So, irrespectively of the broader debate about the need for a crisis response mechanism under the EU budget, a reflection is necessary about the role of Cohesion in such circumstances.

Questions for debate

- At what level should flexibility from the EU budget be provided? Should Cohesion Policy have a role in responding to crises – and what kind of role?
- How could Cohesion Policy flexibility be enhanced to ensure that it can both tackle crises and continue supporting long-term policy objectives - while embracing changing strategic investments and development trajectories?
- How can regions be equipped to better respond to sudden shocks? What role should reforms, capacity building and economic diversification play?