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EU COHESION POLICY POST-2027: WHY AND HOW TO ENHANCE FLEXIBILITY

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Executive Summary

The EU's recent crises and complex geopolitical landscape have highlighted the need to rethink the EU budget for crisis management and increasing spending demands. Despite these pressures, future Multiannual Financial Framework (MFF) discussions are more likely to focus on reallocating existing funds rather than expanding the EU budget.

This situation has put cohesion policy, the largest spending item in the EU budget, under scrutiny. The long-term, defining emphasis on investment as the core purpose of cohesion policy is being challenged as it adapts to respond to crises. Its potential role in financing new EU priorities could lead to clashing goals and deviation from its primary objectives. Additionally, declining absorption rates and overlap with the Recovery and Resilience Facility (RRF) have raised concerns about its efficiency.

This CEPS In-Depth Analysis paper contributes to the debate about the future of cohesion policy by examining current challenges and policy discussions, distilling rationales for enhancing in-built flexibility and formulating options to operationalise them.

Despite the EU budget's inherent rigidity, flexibility in cohesion policy has been evoked or used in various contexts. Flexibility is being increasingly advocated in the context of the need for simplifying cohesion rules for managing authorities (executive flexibility). Flexibility in reallocating funds across programmes and regions was permitted during the Covid-19 pandemic to offer a crisis response (extraordinary flexibility). Finally, flexibility in reallocating funds towards new strategic priorities has been recently introduced following economic security considerations (extended flexibility). Each of these types of flexibility has its legitimacy but also limitations. This explains the lack of consensus on the desirable extent and types of flexibility in the next programming period. To shed light on this issue, this paper puts forward three sets of options to enhance these three different types of flexibility in cohesion policy.

The degree of executive flexibility that Member States have in implementing their shared management allocations can enhance national and sub-national authorities' capacities to implement cohesion funds. Greater flexibility can be achieved by simplifying rules and procedures in using cohesion funds, as well as by reducing the number of funds and by harmonising implementation across EU funds.

Enhanced extraordinary flexibility in times of crisis can foster the EU's capacity to respond to potentially more frequent crises. This can be achieved by broadening Article 20 of the Common Provisions Regulation – to activate temporary measures due to exceptional or unusual circumstances – and by creating crisis reserves in national envelopes. Light-touch conditionality should ensure that short-term relief objectives do not deviate from long-term cohesion goals.

Increasing extended flexibility can enable the EU to support new priorities. Although experience with this form of flexibility is very limited, it may become more in demand as new investment priorities emerge. Options to enhance such flexibility to promote new priorities, like the EU´s competitiveness and growth, include creating 'place-based' thematic initiatives within national envelopes, allowing Member States to 'recycle' de-committed funds and imposing targeted compulsory transfers to EU-level programmes, along with smart incentives for fund reallocation.

Overall, enhancing flexibility in cohesion policy can make EU funds more efficient and effective in addressing emerging needs while retaining its core objectives.

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This CEPS In-depth Analysis papers offer a deeper and more comprehensive overview of a wide range of key policy questions facing Europe. Unless otherwise indicated, the views expressed are attributable only to the authors in a personal capacity and not to any institution with which they are associated.

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Introduction

In light of recent crises and as the EU confronts an increasingly unstable and complex geopolitical context, many commentators emphasise the importance of rethinking the EU budget to enhance its versatility for troubleshooting and crisis management.

At the same time, the EU is confronted with multiple new spending needs ranging from defence and industrial policy, to support for Ukraine and the need to repay NextGenerationEU debt. However, the lengthy and difficult negotiation surrounding the mid-term Multiannual Financial Framework (MFF) review[1] suggests that the next MFF discussions are more likely to focus on reallocating EU expenditures and repurposing available EU funds to new objectives rather than increasing the EU's budgetary capacity.

These circumstances put EU cohesion policy under the spotlight. As one of the largest components of EU spending, cohesion policy has increasingly been used to finance new EU priorities, leading to 'goal congestion'. While it has played an important role in responding to the consequences of recent crises, the shift has strained its primary focus on long-term investment, its core purpose[2] and additional goals may risk diverting the policy from its Treaty mandate of fostering cohesion[3]. Furthermore, in a context of competing spending demands and multiple instruments, the policy is under increased scrutiny about its effectiveness and results. Absorption rates have declined over time, exacerbated by co-existence with the Recovery and Resilience Facility (RRF), raising concerns about inefficient over-spending[4].

Against this backdrop, this CEPS In-Depth Analysis paper seeks to contribute to the debate about post-2027 cohesion policy. It examines the challenges affecting EU cohesion policy and tries to shed light on how to address them through insights from the literature on EU budget flexibility, with a focus on options for integrating more in-built flexibility in EU spending programmes. It discusses different rationales to introduce greater flexibility in the use of EU cohesion policy funds, analyses the challenges raised by a more flexible use of EU cohesion funds and explores various options to enhance flexibility in the next programming period.

The paper proceeds as follows. Section 2 revisits the debate on EU budget flexibility, exploring different concepts of 'budget flexibility' and highlighting the trade-offs that emerge from a more flexible use of EU funds. Section 3 discusses how current debates on

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[1] See for instance Begg (2024).
[2] Molica, F. (2022), *Cohesion policy as an emergency-response instrument: A boon or a bane?*, CPMR reflection paper, April.
[3] Schwab, T. (2024), *Quo vadis, Cohesion policy? European Regional Development at a Crossroads*, Bertelsmann Stiftung, June.
[4] Heinemann F., Asatryan, Z. and Birkholz, C. (2024), *The future of EU Cohesion*, ZEW Research project.

the future of EU cohesion embed different visions of flexibility within the EU cohesion policy field. It identifies three distinct debates on the exercise of flexibility in cohesion policy and discusses the challenges and tensions that they entail. Section 4 proposes guiding principles on how to use these three different 'flexibilities' and formulates some options to enhance the flexibility of the post-2027 EU cohesion policy. Section 5 draws policy conclusions.

1. Revisiting the literature on EU budget flexibility

The concept of budget flexibility refers to an organisation, government or individual's ability to adjust their financial plans and allocations in response to changing circumstances or unexpected events. It is generally acknowledged that the EU budget, given its multi-annual approach and the trend in recent years for a higher share of pre-allocated spending, has limited flexibility. While this was not perceived as a major handicap during the first MFFs[5], it has become increasingly problematic over the last few years. The EU has been confronted with successive crises and a more unstable geopolitical context that require more frequent re-adjustments of the common expenditure priorities.

Various studies have explored ways to make the EU budget more flexible[6]. These range from modest changes, like reducing the number of funds or enhancing existing EU special instruments outside the ceilings, to more ambitious reforms, such as creating an EU-level crisis reserve, expanding and rationalising the use of off-budget borrowing capacities or shifting to a longer budget horizon, e.g. a 10-year MFF with more frequent review points[7]. A potentially attractive strategy would be to build more flexibility into EU cohesion policy which has particularly rigid spending programmes.

1.1. Two different concepts of 'budget flexibility'

It is worth noting that 'budget flexibility' can be applied at different levels. At the national level, budget flexibility is often associated with giving more discretion to executive units on how to execute their allocations. This has been a feature of budget reforms in many OECD countries during the last few decades[8]. The assumption inspiring these reforms is that executive units are best positioned to know how to efficiently achieve their policy and programme objectives and to adapt to changing circumstances if they are given more discretion on how to use their funds.

At the EU level, in contrast, budget flexibility is mostly associated with more discretion to re-orient EU funds to address new spending priorities or needs emerging during the MFF period. This can be labelled 'legislative' flexibility as it refers to the discretion afforded to legislative bodies to deviate from constraints imposed by the MFF Regulation and/or multi-annual spending programmes.

[5] Even if it is worth noting that the first and second MFF (1988-1992 and 1993-1999) were revised or adjusted several times to accommodate new activities (e.g. the provision of technical assistance to the republics of the former USSR, support for German reunification).
[6] See Sapala (2019).
[7] For a detailed discussion of different options to enhance the flexibility of the overall EU budget, see Rubio (2017); Sapala (2020) and Begg et al. (2023).
[8] OECD (2019), Budgeting and Public Expenditures in OECD Countries 2019, OECD Publishing, Paris.

The focus on 'legislative budget flexibility' in EU debates stems from the fact that EU legislators have much less discretion than national legislators in deciding annual spending priorities. The MFF is the outcome of a laborious political process which requires compromises that are hard to unpick. Once adopted, it imposes strict annual ceilings for commitments and payments under each broad expenditure ceiling. As an amendment to the MFF requires a unanimous vote in the Council and the European Parliament's approval (the two arms of the EU 'budgetary authority'), it is much harder to adopt supplementary budgets to respond to new spending, than at the national level. Besides, margins left in reserve between the totals for appropriations for commitment and payment in the MFF for a given year and those entered in the annual budget are usually very low, resulting in a limited capacity to mobilise unused funds[9].

Finally, most EU spending is organised in seven-year programmes with a financial envelope fixed for the entire duration of each multiannual programme. As specified in the 2020 Interinstitutional Agreement (paragraph 18[10]), the Parliament and Council cannot depart by more than 15 % from that amount for the entire duration of the programme concerned, unless new, objective, long-term circumstances arise for which explicit and precise reasons are given. Moreover, this 15 % provision does not apply to cohesion policy envelopes, which are pre-allocated to Member States for the programme's entire duration and cannot be modified through the annual EU budget procedure.

1.2. TRADE-OFFS RAISED BY BUDGET FLEXIBILITY

As emphasised by most studies on EU budget flexibility, exercising budgetary flexibility can conflict with other principles and objectives that inform the EU budget.

First, there is an inherent tension between budgetary flexibility and budget control. While control rules are necessary to avoid misuse of public funds, too detailed ex-ante control rules may hinder effective expenditure management as executive units cannot react with sufficient autonomy to changing needs. To overcome this conundrum, governments and organisations develop different strategies. One strategy is to adopt a risk-based control approach, subjecting high-value or high-risk transactions to strict controls and lowering controls for low-value or low-risk transactions. Another strategy is to reduce ex-ante controls and put more emphasis on ex-post controls, conditioning disbursement to the achievement of performance criteria.

At the EU level, a second major tension is between budgetary legislative flexibility and the stability and predictability of EU funding, a fundamental feature of the EU budget. Too much flexibility and frequent re-programming may detract from the EU budget's long-

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[9] European Court of Auditors (2018), *Future of EU finances: reforming how the EU budget operates*, February.

[10] https://www.europarl.europa.eu/cmsdata/219824/C6_EN_N.pdf.

term transformational approach. There is no easy way to deal with this problem. There seems to be a consensus on the need to make EU finances more flexible and responsive to major exceptional circumstances but this probably requires looking beyond the MFF and having a more radical re-think of the structure of EU finances[11]. Notwithstanding the need for more radical reforms, it is also worth exploring whether the EU's existing long-term investment programmes should incorporate more in-built flexibility to adapt to a changing environment.

[11] See Begg et al (2023) for a more detailed discussion.

2. Flexibility in EU cohesion policy: how is it being applied?

While the idea of flexibility in EU cohesion policy may seem at odds with its long-term nature and the programming approach at its core, it is being widely debated. Different policy debates around the future of EU cohesion embed different visions about how flexibility within the policy could be achieved. One can distinguish three streams of discussion which relate directly or indirectly to flexibility.

The first is about simplifying cohesion policy's delivery model. The degree of 'executive flexibility' that Member States should have in implementing their shared management allocations[12] is a central issue in the discussion on how to simplify processes. There is a consensus that EU cohesion rules are too rigid and complex, and an enhanced degree of executive flexibility could lead to more strategic and cost-efficient use of funds.

The second debate relevant to flexibility is on the role EU cohesion policy should play in response to crises. During the last few years, successive amendments have been introduced to cohesion policy regulations (CRII and CRII+, CARE, CARE+, FAST-CARE and SAFE) allowing for quicker and more flexible use of funds to support crisis-mitigation measures. While these crisis-related amendments have been welcomed by many managing authorities, the exercise of this 'exceptional flexibility' has sparked a debate on the risks of diverting the policy away from its long-term investment goals.

The third is a debate on the extent to which EU cohesion funds could or should be re-purposed to support new EU-level priorities. While the link between cohesion funds and the EU's common priorities is not new, common EU priorities were usually embedded in long-term investment strategies, such as the Lisbon Strategy, Europe 2020 and the EU Green Deal, and integrated into national and regional cohesion plans using common thematic objectives and earmarking practices. However, the succession of recent shocks has required a rapid re-definition of EU priorities in the middle of the programming period.

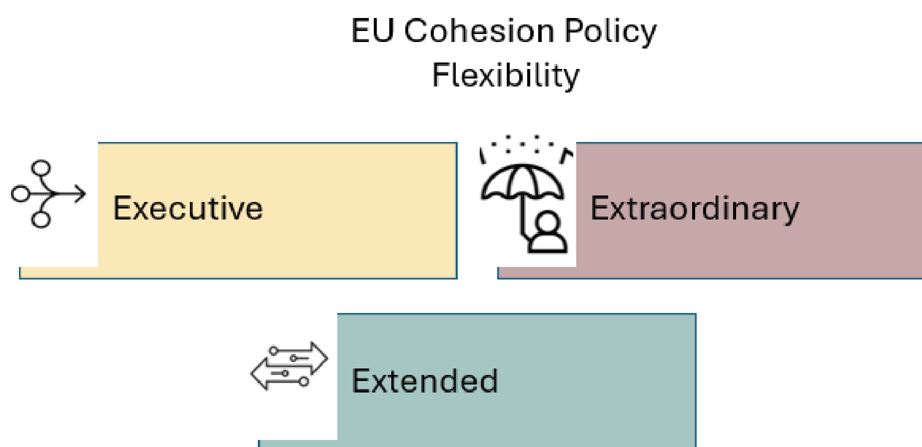
New demands range from rapid diversification of the EU´s energy supply mix to reducing dependency on Russia, to the need to protect and boost key strategic industrial sectors in response to growing economic nationalism by the US and China. In this context, the European Commission has put forward some measures to facilitate the reallocation of EU cohesion funds to support these new EU priorities. While some experts have warned that the approach can undermine the original purpose of these funds, this 'extended flexibility'

[12] Not all measures on 'simplification' are measures aimed at enhancing managing authorities' 'executive flexibility'; some measures aim to simplify procedures and rules for final recipients.

has been welcomed by many Member States, as it has allowed them to use their cohesion envelopes to support new strategic priorities.

The next section maps how each of the three types of flexibility (see Figure 1) has been exercised in recent times, the trade-offs it may have entailed, as well as its advantages.

Figure 1. Types of flexibility used in cohesion policy



Source: Authors' elaboration.

2.1. EXECUTIVE FLEXIBILITY TO IMPLEMENT COHESION NATIONAL ENVELOPES

While there is a broad agreement that the current EU cohesion regulatory framework is overly complex and rigid, there are different visions for how to enhance 'executive flexibility' when managing and implementing EU cohesion policy funds.

First, executive flexibility can be enhanced by simplifying rules on implementing and controlling the use of EU funds. Most stakeholders welcome the simplification provisions introduced by the Common Provisions Regulation (CPR) 2021-27, such as the use of simplified cost options (SCOs) or the single audit approach. However, they are considered insufficient and more needs to be done in the future.

Another way of enhancing 'executive flexibility' is by reducing the number of funds and/or harmonising their rules and procedures. Today, there are seven different EU-level instruments and funds contributing to cohesion goals, with overlapping priorities and different implementation rules[13]. Most stakeholders agree that this creates an additional administrative burden and constrains public authorities' capacity to allocate funds according to their own domestic needs and priorities.

[13] The Cohesion Fund, the ERDF, the ESF+, the RRF, the Just Transition Fund (JTF), the European Fund for Rural Development (EFRD) and the upcoming Social Climate Fund (SCF).

Finally, a less widely supported approach to enhance executive flexibility would involve granting Member States more discretion in allocating 'their' cohesion national envelopes across different programmes, objectives and regions. Some stakeholders argue that the regulatory obligations for programming – such as thematic allocations, earmarking or territorial eligibility rules – are too strict. Consequently, central governments are unable to utilise the funds in a more strategic and transformative way. Drawing inspiration from their experience with the RRF, they advocate for Member States to have more leeway to programme EU cohesion funds according to country-specific priorities, without being constrained by thematic obligations or regional eligibility rules.

This vision is hinted at in some non-papers and position papers by national governments[14]. However, it is not shared by regional governments and their representatives, who warn about the risk of 're-nationalisation' of the policy. Drawing from the RRF experience, regional representatives consider that granting more discretion to Member States in planning and using EU cohesion funds may result in more centralised management of funds and the diminished involvement of regional and local actors. They contend that this can ultimately hamper the effectiveness of cohesion interventions and exacerbate existing intra-country territorial disparities[15].

Some scholars also note that the rules for 2021-27 have already enhanced the discretion of national authorities in programming cohesion policy funds. Central governments are now allowed to transfer sizeable sums of money between the Funds and within categories of regions, subject to the Commission's approval. Furthermore, they can also re-programme some allocations within operational programmes without prior notification to the Commission and will be able to re-programme up to 50 % of cohesion funding for 2026 and 2027 following the mid-term review scheduled for 2025. Finally, although they must comply with thematic concentration obligations, central governments can now apply these obligations at the national level instead of the regional level.

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[14] See i.e. *Non-Paper on the Future of Cohesion policy*, Ministerio de Hacienda y Función Publica, Madrid, September 2023 or the discussion paper for the Informal Meeting of Ministers Responsible for cohesion policy, Bratislava, 30 May 2023.

[15] See i.e. Committee of the Regions (2023), *Opinion on the future of Cohesion policy post-2027*, 158th plenary session, 29-30 November.

2.2. EXTRAORDINARY FLEXIBILITY TO RESPOND TO CRISES

In recent years, cohesion policy funds have been mobilised in response to various crises (Covid-19, the refugee crisis following Russia's invasion of Ukraine and the energy crisis). Successive amendments were introduced into the CPR to facilitate the use of unspent resources, accelerate payments, transfer resources among thematic objectives, funds and regions, and cover new types of interventions such as emergency health actions or crisis-relief support for firms. Regulations such as CRII and CRII+, CARE, CARE+, FAST-CARE and SAFE amended the 2014-2020 CPR[16] to allow Member States to re-purpose remaining funds from the previous programming period to address the effects of these crises.

The exercise of 'extraordinary flexibility' has raised concerns about the risk of distancing the policy from its core long-term objectives. Preliminary evaluations[17] indicate that these concerns are partly justified, as crisis-related amendments have resulted in a re-allocation of funds from long-term investments towards short-term crisis-relief measures[18] and, in some cases, from poorer to richer regions. At the same time, most stakeholders, particularly managing authorities, welcome the measures for providing much-needed flexibility to adapt to unforeseen and exceptional circumstances. The position papers and manifestos of various stakeholders indicate a consensus on the need to find a balanced approach that allows some targeted flexibility to react to exceptional circumstances, albeit without compromising the policy's long-term development goals[19].

Another concern raised by stakeholders is that successive amendments to the CPR significantly increased the administrative burden for implementing bodies. To prevent this in the future, in 2020 – during the Covid-19 crisis – the Commission proposed to include an article in the CPR for 2021-2027 (Article 20) that would allow the Commission to unilaterally grant exceptional flexibility to Member States in the event of major and exceptional circumstances. This article, however, was not used to respond to subsequent crises, the main reason being that the Commission prioritised mobilising the remaining 2014-2020 funds.

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[16] Only FAST-CARE introduced amendments to both the 2014-2020 and 2021-2027 CPR.

[17] European Court of Auditors (2023), *Special report 02/2023: Adapting cohesion policy rules to respond to COVID-19;* Böhme, K et al. (2022), *The impacts of the COVID-19 pandemic on EU cohesion and the war in Ukraine on EU cohesion policy*, study for the EP REGI committee; and Kiss-Gálfalvi et al. (2023), *Lessons learned from the implementation of crisis response tools at EU level, part I: Assessing implementation and implications*.

[18] This effect, however, must be qualified as pointed out by Kiss-Gálfalvi et al. (2023). Only uncommitted funds were re-allocated to short-term crisis relief actions. Besides, in the case of CRII and CRII+, several long-term investment priorities (e.g. R&D, the environment) that suffered severe cuts in 2020 saw (sometimes considerable) upward revisions in 2021.

[19] The Council's November 2023 conclusions on the future of the EU cohesion policy summarise very well this position. In the conclusions, the Council 'recognises that cohesion policy is a long-term policy, not a crisis instrument. Emphasises the crucial and decisive action by cohesion policy in addressing recent crises in countering their negative socio-economic impacts and avoiding the aggravation of existing asymmetries. Is of the opinion that the cohesion policy regulatory framework should be able to adapt to new developments and unexpected events, while recalling the long-term transformational nature and structural objectives of cohesion policy'.

Additionally, there has been discussion about the effectiveness of some of the crisis-related tools used under CRII/CRII+, CARE, FAST-CARE and SAFE. The most contentious was the possibility of applying a 100 % EU co-financing rate for some accounting years. While very popular among managing authorities and helping to boost the liquidity of Member States' authorities in times of crises, this measure can raise the risk of moral hazard and can result in lower-quality projects[20] (see a more detailed discussion on 100 % co-financing in section 3.3.).

Another specific consideration relates to financial instruments, whose use was promoted during the pandemic[21]. During the Covid-19 crisis, the CRII/CRII+ provisions allowed managing authorities to set up financial instruments to support the working capital of Small and Medium Enterprises (SMEs). The set-up of financial instruments was facilitated as there was no requirement to conduct an ex-ante assessment.

While there was significant resort to these financial instruments[22] in response to the large and sudden liquidity needs, there is no clear evidence yet concerning their effectiveness[23]. These CRII/CRII+ measures raise two questions. The first is about whether support for SMEs' working capital should be financed by EU cohesion policy funds – even in response to a crisis – or should be entirely left to the national level. Second, financial instruments are notably very flexible, making them suitable for addressing emergency situations. However, given their market nature, their use should be encouraged for cost-effectiveness and EU projects with economic returns that should not be financed by EU grants. While the first condition may materialise in a crisis situation, the latter is unlikely.

Finally, regarding the trade-off between flexibility and control, it should be noted that, despite Member States' pressure[24], the crisis-related regulations did not relax rules on management and control systems. Evaluations have not provided evidence of systemic problems of fraud and misuse of EU funds due to applying crisis-related provisions. However, various factors – time pressure, applying simplified and accelerated procurement procedures for healthcare products and equipment at national level, or the existence of additional funds – may have resulted in more irregularities.

[20] Kiss-Gálfalvi et.al (2024) *Lessons learned from the implementation of crisis response tools at EU level. Part I: Assessing implementation and implications*, study for the European Parliament's Committee on Budgetary Control.
[21] See Commission and EIB document.
[22] See for instance Bohme et al. (2022), *The impact of the COVID-19 pandemic and the war in Ukraine on EU cohesion, Part II: Overview and outlook*, study for the REGI committee of the European Parliament.
[23] Similar points emerge from the European Court of Auditors Report (2023), *Adapting cohesion policy rules to respond to COVID-19.*
[24] As well as from regions, see for instance the CEMR Recommendations to better implement the Coronavirus Response Investment Initiatives.

2.3. EXTENDED FLEXIBILITY TO RE-PURPOSE COHESION POLICY FUNDS TOWARDS NEW EU INVESTMENT PRIORITIES

While recent crises have led to the establishment of short-term crisis-mitigation measures, some major structural changes have prompted a redefinition of the EU´s long-term investment priorities. In particular, the war in Ukraine has forced the Union to accelerate the diversification of its energy sources and boost its defence capacity. Similarly, growing economic tensions with the US and China make it necessary to protect and promote some of the EU's key strategic industrial sectors.

In this context, the Commission has put forward some measures to encourage Member States to reallocate part of their EU cohesion funds to support these new EU priorities. First, launched in March 2022 in response to the war in Ukraine, the REPOWER initiative allows Member States to transfer up to 12.5 % of their cohesion policy envelopes to the national recovery plans to finance measures promoting REPOWER objectives, namely diversifying energy supplies and reducing energy demand. Second, proposed in June 2023, and agreed upon in February 2024[25], the STEP (Strategic Technologies for Europe Platform) Regulation offers Member States a 100 % co-financing rate and a 30 % pre-financing rate to support STEP projects. These projects are intended to support the development of digital technologies, clean technologies and biotechnologies. STEP also seeks to boost manufacturing that rely on these technologies and to ensure their value chains are better protected from dependence on third-country suppliers.

Both initiatives are relatively recent, making it difficult to assess their full effects. On paper, national governments may see some advantage from transferring money to the recovery plans as this can allow a quicker disbursement of the money[26]. However, in countries where managing cohesion funds is largely decentralised, it implies transferring the powers to programme funds from the regional to the national level. In countries in which there are no territorial criteria for distributing RRF funds, this transfer can result in a concentration of resources in the most dynamic areas, with the risk of exacerbating intra-country disparities.

Preliminary evidence from partnership agreements shows that national governments did not have much appetite for transferring cohesion envelopes to other spending

[25] See STEP Regulation. The STEP can be seen as a response to the challenges and limitations associated with establishing a full-fledged EU Sovereignty Fund to support EU industry. This idea was put forward by Commissioner Breton in September 2022, shortly after the US Inflation Reduction Act was announced but it never came to fruition.

[26] Although views are quite different about whether RRF procedures are less burdensome than cohesion policy, there is consensus that the RRF is subject to less onerous procedures than cohesion policy funding with a slimmer approval process and lower programming requirements, as well as in terms of co-financing (no co-financing in the RRF). See i.e. ECA journal No. 1 (2022), 'Cohesion and NextGenerationEU: concord or clash?' Or ECA Journal No. 2 (2022), 'The EU Recovery and Resilience Facility: a jump to a resilient Europe?'.

programmes[27]. Moreover, only those Member States with substantial cohesion policy amounts not yet programmed will have much scope for making such transfers in the middle of the programming period.

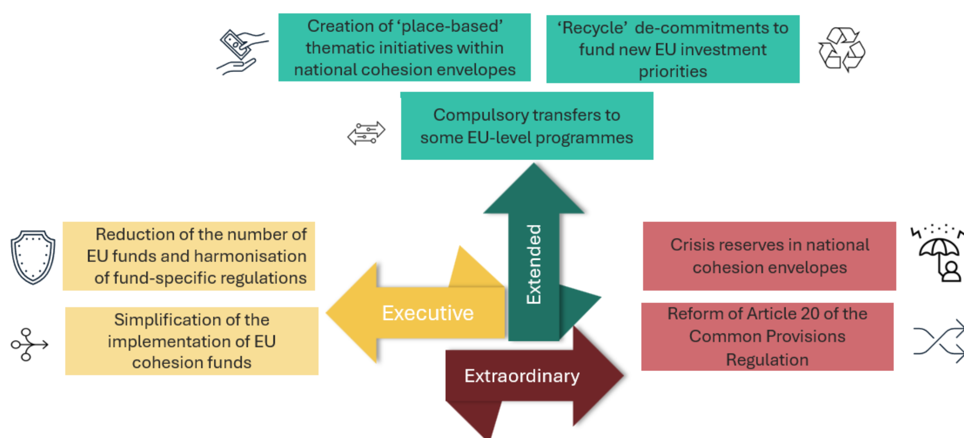
Regarding the use of 100 % financing, as shown in section 3.2., this was largely used during Covid-19 but elicited criticism. While the measure provided immediate liquidity for countries struggling in the middle of a crisis, it also raised concerns about a lack of ownership and the consequent higher risk of moral hazard. Offering 100 % financing in 'normal' times is even more problematic. There is not only a greater risk of moral hazard (as Member States' authorities do not 'risk' their own money) but it reduces the total pool of EU-funded projects. As many countries had already programmed resources to STEP projects, it is unclear if 100 % financing produces a truly additional benefit or simply allows national governments to save national fiscal resources.

[27] Apart from the exceptional transfer allowed by REPOWER, the CPR enables Member States to transfer up to 5 % of cohesion funds to any other EU centrally managed programme. Only two countries (Germany and Malta) have used this provision and only for tiny amounts (see Lleal Fontàs, E., Teixeira, J (2023), *Partnership Agreements 2021-2027: The legacy of Next Generation EU*, CPMR technical note, February).

3. LOOKING FORWARD: WHICH FORMS OF FLEXIBILITY FOR COHESION POLICY AFTER 2027?

The previous section reviewed different instances in which the three different types of flexibility – namely executive, extraordinary and extended flexibility – were used and the policy and academic debates around them. A common finding is the lack of consensus on how much and what type of flexibility is desirable, and the conditions under which it can successfully be applied. In this section, we propose some guiding principles on how to use in-built flexibility in cohesion policy during the next programming period and discuss some specific options. Figure 2 offers a summary overview of the opinions described in more detail in the next sections.

Figure 2. Options to enhance flexibility in cohesion policy



Source: Authors' own elaboration

3.1. EXECUTIVE FLEXIBILITY: FURTHER SIMPLIFICATION AND REDUCTION OF THE NUMBER OF FUNDS

The next programming period should see further simplification of the management and control of EU cohesion funds. High administrative complexity not only creates unnecessary administrative costs but reduces managing authorities' discretion in deciding how to use the funds. There is also general agreement on the need to reduce the number of EU funds and instruments in support of cohesion objectives. We will discuss these two ways of enhancing 'executive flexibility'.

In contrast, there is no strong rationale to further enhance the capacity of national authorities to transfer EU cohesion funds across priorities and regions and to re-programme funds during the programming period. The CPR for 2021-27 has already given more discretion to national authorities to transfer resources and this has been widely utilised. An analysis of the 2021-2027 Partnership Agreements shows that all but three

Member States (Cyprus, Denmark and Malta) have made use of these transfer provisions[28]. Notably, 28 % of transfers have been done between regions, resulting in a marked increase in allocations for more developed regions (around +10 %), a minor increase for transition regions (+3 %) and a decrease in the allocation for less developed regions (-3 %). These results point to potential shortcomings associated with the enhanced capacity of central governments to reallocate funds across regions[29]. Shifting funds towards richer regions risks further exacerbating intra-country disparities, especially at a time when there is a general trend in the EU towards the concentration of economic activities and job opportunities in capital cities and large metropolitan areas.

Transfers across funds constituted most transfers undertaken by central governments (61 % of total transfers). The high number of transfers across funds is evidence of the difficulties of working with different EU cohesion funds with overlapping objectives and different delivery mechanisms. This not only increases administrative burdens but also constrains public authorities' discretion to allocate resources according to local needs. An option to resolve the problem is to enhance the capacity to transfer resources across funds. A better solution is to reduce the number of EU cohesion funds and harmonise as much as possible fund-specific regulations, as we discuss below in section 4.1.ii.

3.1.1. Simplifying the implementation of EU cohesion funds

The need to further simplify cohesion policy rules and procedures is echoed in many position papers by both national governments[30] and regional representatives[31]. Some specific requests, such as the need to reinforce the application of the single audit approach, are broadly supported[32].

However, it is difficult to develop specific simplification proposals – on how to organise the audit system or guarantee compliance with EU legislation – without knowing the delivery model applied to EU cohesion funds in the next programming period. In this respect, the Commission is expected to propose a shift from a cost-based reimbursement model to an RRF-like model, in which payments are conditional on achieving milestones

[28] Lleal Fontàs, E. and Teixeira, J. (2023), *Partnership Agreements 2021-2027: The legacy of Next Generation EU*, CPMR technical note, February.

[29] It should be noted that such reallocations may be driven by exogenous factors, independent of government plans. In Italy and Spain, more developed regions like Lombardy and Catalunya were among the hardest hit by the pandemic, which justifies the reallocation. However, it is likely that these regions possess stronger administrative capacities and can absorb funds more quickly. As a result, they may crowd out poorer regions if allowed to compete on the same grounds.

[30] See Council´s conclusions on the future of the EU cohesion policy of November 2023, point 16.

[31] See Committee of the Regions (2023), *Opinion on the future of Cohesion policy post-2027*, 158th plenary session, 29-30 November 2023, point 69.

[32] Both mentioned in the Council´s conclusions of November 2023 and in a CPMR position paper on simplification (*CPMR messages that should guide the simplification of Cohesion policy: Trust, Equity and Creativity*, position paper approved by the CPMR Political Bureau on 9 June 2023 in Florence). The latter states that 'cohesion policy control mechanisms should focus on the respect of the ESIF regulations, and not burden managing authorities with the responsibility of controlling the implementation of the entire EU-legislation'.

and targets. Contrary to what is implicit in some calls, a performance-based delivery model may not significantly simplify administrative processes. Ongoing research on the RRF's implementation indicates that monitoring milestones and targets is highly burdensome and bureaucratic while national authorities still have to verify invoices to ensure they conform with sound financial management principles[33].

If EU cohesion funds adopt this new delivery model, a thorough reflection on ways to reduce any additional administrative burden would be needed. One option could be to extend the use of simplified instruments for the delivery of funds to final recipients, such as the 'simplified cost options' (SCOs)[34]. In addition, studies also show most Member States complain about a high degree of inflexibility in re-programming the use of RRF funds. Once milestones and targets are set, there is a long and complex process to revise them. While milestones and targets should be only revised under well-justified circumstances to prevent Member States from continuously adjusting the ambitions of their programmes downwards, the procedure to amend performance targets should be simplified.

3.1.2. Reducing the number of EU funds and the harmonisation of fund-specific regulations

The 2021-2027 programming period has seen the establishment of additional funds and instruments with cohesion objectives or aligned objectives. On top of the 'classic' structural and investment funds – ERDF, ESF+ and the Cohesion Fund (CF) – the RRF, the Just Transition Fund (JTF) and the upcoming Social Climate Fund (SCF) have been added. All these funds have partially overlapping goals but are governed by different rules and follow different delivery models. The ERDF, the ESF+, the CF and the JTF are subject to common rules (the CPR) but these are complemented by three fund-specific regulations. All four funds follow a cost-based reimbursement approach whereas in the case of the RRF and the SCF, expenditures are reimbursed based on fulfilling milestones and targets. While the CF, the RRF and the SCF provide support to Member States, the ERDF and the ESF+ provide support to NUTS2 regions and the JTS provides support to eligible NUTS3 areas.

This fragmented and complex landscape of EU funds needs to be simplified. A radical option would entail reducing all these funds to a single 'cohesion' fund managed at the

[33] ECORYS, CEPS, CSIL, NIESR, and Wavestone (2023), *Study supporting the mid-term Evaluation of the Recovery and Resilience Facility- Report for the European Commission*; Zeitlin J., Bokhorst D. and Eihmanis E. (2023), *Rethinking the Governance and Delivery of the Cohesion policy Funds: Is the Recovery and Resilience Facility (RRF) a Model?*, issue paper for the High-Level Group on the Future of the EU Cohesion; Polverari, L. (2024), 'Coordinative Europeanization as a response to crisis: what lessons from the RRF for future EU cohesion policy?', *Comparative European Politics*.

[34] As proposed by a recent report that gathers insights on the implementation of national RRF plans and explores potential implications for the future of cohesion policy post-2027 on the basis of a survey of 15 regions from eight Member States participating in the implementation of National RRF plans (Recovery and Resilience Facility mid-term evaluation: contributions of 'Regions for EU Recovery' (R4EUR)'.

central level or – as proposed in a position paper by some Polish regions[35] – at a very decentralised level, namely at the NUTS2 level. The drawback of such options is that, while sharing common broad goals, some of these funds have different specific purposes. Merging them into a single fund would reduce the Union's capacity to steer EU resources towards specific common objectives, such as supporting the 'just transition' in coal-dependent regions. A more promising option would be to reduce the number of funds by merging those which have broadly overlapping objectives. For instance, there is a case for merging the three social-related funds (ESF+, Just Transition Fund and Social Climate Fund) into a new 'European Social Fund' with a strong climate orientation.

Apart from reducing the number of funds, there is a need to harmonise rules and procedures. First, all funds should follow the same delivery model. This could be either reimbursement based on costs incurred or reimbursement based on achieving objectives (performance-based). Second, fund-specific rules should be reduced to the minimum and included as chapters in a single rulebook. This would facilitate the combination of different funds while retaining earmarking for specific priorities.

3.2. Extraordinary flexibility: well-defined provisions on when and how to use it

It is widely accepted that cohesion policy should not become a crisis-mitigation tool. Not only would this shift the policy away from its original goal but the volume of the funds will never be sufficient to respond to major shocks. The main response in exceptional circumstances should come from dedicated national and/or EU-level envelopes. Yet some targeted flexibility is needed to adapt cohesion programmes to these situations. Crises can have significant short-term negative effects that, if not addressed, may result in increasing disparities and further damage to the development prospects of a region or a country. Besides, major shocks can warrant a review of the timeline or scope of some planned investments (e.g. a programme to support SME investments in R&D will have very low take-up in the middle of an economic crisis). The Commission's ninth report on economic, social and territorial cohesion[36] explicitly recommends built-in flexibility for unforeseen circumstances to reach long-term objectives.

Drawing on recent experience, the use of extraordinary flexibility provisions should be restricted to well-defined and exceptional circumstances. Procedures and rules to use this extraordinary flexibility should minimise regulatory and administrative complexity. They

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[35] Position Paper of the Polish voidvodeships, 28.6.23, cited in Bachtler J. and Mendez C. (2023), *Navigating stormy waters: crises and Cohesion policy beyond 2027*, EoRPA Report 23/3, European Policies Research Centre, University of Strathclyde, Glasgow and EPRC Delft, p. 46.

[36] See here.

should also be designed in a way to avoid major deviations of the policy from its long-term objectives.

3.2.1. Reforming Article 20 of the Common Provisions Regulation

One source of regulatory complexity is the need to amend the CPR any whenever there is a need for exceptional flexibility. A way of avoiding this is by enhancing the scope of the CPR's current Article 20. This article allows the Commission to activate temporary measures (up to 18 months) in exceptional or unusual circumstances. As seen above, Article 20 was not used to respond to recent crises. However, it may become very useful for any new shocks.

The article sets clear and well-defined conditions for the use of exceptional flexibility. It can only be activated when the 'general escape clause' of the Stability and Growth Pact has been triggered[37]. However, it allows the Commission to adopt only four types of temporary measures, primarily aimed at accelerating payments to ensure liquidity for the implementation of programmes and speeding up implementation[38]. While 'liquidity' measures were widely welcomed, a survey conducted among managing authorities in 2023 reveals that the most appreciated CRII/CRII+ provision was the flexibility in re-allocating resources across funds and regions[39].

Looking ahead, it makes sense to extend the list of possible temporary measures to be adopted under Article 20[40]. In particular, in well-defined exceptional circumstances, it should be possible to grant exceptional flexibility to managing authorities to reallocate resources across funds and to extend the list of eligible measures.

At the same time, the use of exceptional flexibility should be better targeted and monitored at the EU level. While it is normal that crisis situations lead to a shift to more generic, immediate support at the expense of more sophisticated, long-term investments, the introduction of some minimum conditionality requirements could be considered to avoid extensive deviations from long-term investment objectives. For instance, when EU cohesion funds are used to provide working capital support to firms, one could imagine conditioning this support to some minimum requisites in terms of aligning these firms with national or regional long-term climate and digital objectives.

[37] That is, in case of 'an unusual event outside the control of one or more Member States, which has a major impact on the financial position of the general government or a severe economic downturn for the euro area or the Union'.

[38] Increase interim payments by 10 percentage points at the request of managing authorities, allow managing authorities to select operations already completed, allow retroactive eligibility of operations and extend the deadlines for submitting documents and data.

[39] See Böhme et al (2023), *The delivery system of Cohesion policy now and in future*, a study conducted for the Committee of the Regions.

[40] The Committee of the Regions also recommends developing 'a comprehensive mechanism for the use of funds in the event of exceptional or unforeseen circumstances (..) building on Article 20 of the current regulation'. See Committee of the Regions (2023), *op.cit,* point 46.

3.2.2. Creating 'crisis reserves' in national cohesion envelopes

Giving managing authorities more capacity to re-programme funds in exceptional circumstances is useful but it may result in cuts to programmed funds for long-term investments. An option to avoid this from happening would be to allow national governments to earmark an unallocated amount of EU cohesion funds at the beginning of the programming period for use in responding to unanticipated developments. Apart from preserving long-term investments from cuts, this would avoid the burden of amending existing programmes.

The idea of creating an optional crisis reserve was evoked in a 2022 joint paper adopted by 10 Member States in response to the Ukraine refugee crisis[41]. However, creating national crisis reserves presents some challenges. If the function and procedure to activate the reserve are not clearly defined, it may create risks of politicising the use of cohesion funds or deviating from cohesion-related objectives. To prevent this from happening, the Commission could be made responsible for approving Member States' demands to activate this crisis reserve. If the reserve is not called upon during the period up to the EU cohesion mid-term review in 2025, an option could be to release any unspent funds following the mid-term review, allocating them to additional projects based on objective performance/needs criteria.

3.3. Extended flexibility: clear guidance and better tools

Initiatives aimed at encouraging the re-purposing of cohesion funds in support of emerging EU priorities have been criticised on different grounds, by several stakeholders and scholars. They see these types of initiatives as being purely motivated by a negative perception of cohesion policy and by budgetary considerations according to which cohesion policy is a large pot of money ready to cater for all types of unforeseen needs[42]. Another criticism is that transferring cohesion policy funds to centrally managed programmes such as the RRF (as proposed under the REPowerEU initiative) will result in funds being concentrated in richer areas[43] and a lack of involvement of local and regional actors[44], ultimately undermining the effectiveness of investment actions on the ground.

[41] The paper proposed to 'create an optional reserve up to 5 % in the national cohesion envelopes, which could be used by Member States to address the direct and indirect impacts of war without additional bureaucracy', see https://www.fm.gov.lv/lv/media/11208/download.

[42] See Committee of the Regions opinion on STEP, included in their November 2023 Opinion on the mid-term MFF review.

[43] Barbero et al. (2022) model the impact of the RRF on countries and regions in a general equilibrium model, and find that richer capital city regions, with high demographic concentration, tend to benefit more from the funds, leading to more persistent disparities over time. See Barbero, J., Conte, A., Crucitti, F., Lazarou, N. J., Sakkas, S. and Salotti, S. (2022), 'The impact of the recovery fund on EU regions: a spatial general equilibrium analysis', *Regional Studies*, Vol. 58, No. 2, pp. 336–349.

[44] See for instance the Committee of the Regions (2023), *Opinion on the Review Report on the Implementation of the Recovery and Resilience Facility*, which contends that National Recovery and Resilience Plans may be less efficient and

Objections have also been raised about additional administrative burdens that may entail the re-purposing of funds and the fact that continuous re-programming does not allow the development of long-term investment strategies.

While it is true that these initiatives have often been motivated by the challenge of finding additional EU resources to cover new spending needs, factors like absorption rates and the efficient use of cohesion funds have become increasingly relevant. Moreover, one can even question the claim that re-purposing EU cohesion funds necessarily means the funds deviate from core cohesion goals. Deviations could occur if funds were redirected to support EU priorities which are unrelated to economic and social objectives (e.g. strengthening security and defence). However, it is less clear that this is the case when the repurposing of funds is meant to contribute to the EU's competitiveness and growth. For instance, it is well-known that actions to boost the Union's global competitiveness, when designed from a top-down, 'place-blind' perspective, tend to exacerbate agglomeration trends but cohesion funds could still be used to promote 'place-sensitive' growth and competitiveness strategies.

Following this reasoning, one can argue that initiatives to re-orient cohesion funding towards new EU investment priorities are legitimate insofar as the re-purposed funds contribute to achieving the Treaty's cohesion objective; that is, promoting the EU's overall harmonious development, in particular (but not only) by reducing regional divergences (Article 174 TFEU). This does not necessarily entail pre-allocating funds at the NUTS2 level but requires the adoption of a 'place-sensitive' approach and an explicit intention to mitigate adverse effects on EU cohesion. Importantly, there are inherent limits to how much cohesion funds can be repurposed. For recipients, a key feature of the programming approach is the predictability of funding available for each region and country. Extensive re-programming or major transfers to other EU-level programmes should be seen as an exception rather than the rule.

Against this background, and given the limitations shown by the instruments used so far to re-purpose (as discussed in section 3.3), different options for 'extended flexibility' are worth exploring, such as reserving some EU cohesion funds from national envelopes, allowing Member States to 'recycle' their de-committed funds to support projects of strategic interest for the Union, or imposing targeted compulsory transfers to some EU-level programmes. This last option could follow the example of the Cohesion Fund (allocated at Member State level) which saw transfers to the Connecting Europe Facility (CEF). These three options are discussed below.

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have less impact than desired if regions and cities are not effectively involved in their implementation. Along the same line, in the CoR and Council of European Municipalities and Regions (2024) consultations on the Implementation of the Recovery and Resilience Facility at Local and Regional Level, stakeholders claimed that the RRF's management is highly centralised at the level of Member States and that the local and regional authorities involvement remains inadequately weak in the various phases of preparation, implementation or monitoring of the NRRPs.

3.3.1. Creating 'place-based' thematic initiatives from national cohesion envelopes

The amount of cohesion policy funds directly managed by the Commission is very low. Out of the total EUR 392 billion for cohesion policy in 2021-2027, the Commission only manages approximately EUR 3 billion; half of this is to finance EU-level technical assistance support, the other half to finance three EU-level initiatives, namely, Interregional Innovation Investments, the European Urban Initiative and ESF transnational co-operation.

One option to re-purpose EU cohesion funds in support of new EU investment priorities could be to remove a higher percentage of cohesion policy resources from the national envelopes and use them to support EU thematic initiatives. These initiatives would be different from existing centrally-managed programmes (i.e. Horizon Europe, the Connecting Europe Facility, Digital Europe) in that they would incorporate a strong place-based approach in their modes of delivery. Thus, as an example, the Commission could establish a 'cohesion-based EU sovereignty fund' which would support the setup and development of strategic industrial value chains in the Union.

The money would not be pre-allocated but would be distributed following a 'place-based' sensitive approach. This could consist, for instance, of organising competitive calls with preference given to less-developed regions and countries or restricting some parts of funds to less-developed areas following the example of the 'challenge grants' included in the US Chips and Science Act (see Box 1). To create a 'level-playing field', the creation of these EU-level thematic initiatives should be accompanied by sufficient support to reinforce the administrative capacity of poorer regions and Member States, helping them in their efforts to develop an appropriate 'pipeline' of eligible projects.

EU thematic instruments under cohesion policy could also serve to support cross-national projects connecting actors from regions at different levels of development but having some complementarities. The overall aim would be to mitigate or counteract market-driven agglomeration effects and to facilitate the connection of poorer areas with more developed areas[45].

[45] On the benefits of promoting interregional linkages in research and development actions, see Balland, P.A. and Boschma, R. (2021), 'Complementary interregional linkages and Smart Specialisation: an empirical study on European regions', *Regional Studies*, Vol. 55, No. 6, pp. 1059-1070.

Box 1. The 'challenge grants' under the US Chips and Science Act (CSA)

The US Chips and Science Act (CSA) provides USD 50 billion to support US-based semiconductor manufacturing, research and development. A fifth of the funding (USD 10 billion) is being used to support the creation of 20 'Regional Technology Hubs' located in regions which are not leading technological centres. The programme does not target the most distressed US areas but smaller US cities or rural regions which have the potential to host high-tech industries and which are struggling economically. Another USD 1 billion finances the 'Recompete program', which offers federal block grants of at least USD 20 million to local projects to re-dynamise persistently distressed communities. Both programmes distribute money to communities via federal 'challenge grants'. As noted by Muro et al. (2022), distributing funding to locations via such grants represents a powerful form of place-based investment, since the competitive nature of the award system forces local actors to align around a shared vision and ensure that they are all cooperatively working towards winning funding.

3.3.2. 'Recycling' de-commitments to fund new EU investment priorities

Another way of re-orienting cohesion funds to new EU investment priorities could be to allow Member States to 'recycle' de-committed funds in support of these new priorities. De-commitment rules are necessary to instil some degree of budgetary discipline in national and regional authorities to spend EU funds on time. However, the fear of losing EU money tends to create pressure to spend the money quickly, something that runs against the quality of EU spending, as has been proven by some studies[46]. Allowing national authorities to 'recycle' de-committed funds could be a 'win-win' solution in this respect. On the one hand, it would lift the pressure to spend all the EU money on time, ensuring that the projects are properly prepared, selected and executed. On the other hand, it would provide some extra EU money to finance emerging EU priorities, even if the amount of money would probably be limited.

[46] Dicharry, B. (2023), 'Regional growth and absorption speed of EU funds: when time isn't money', *Regional Studies*, Vol. 57, No 3, pp. 511-524.

3.3.3. Compulsory transfers to some EU-level programmes

A third option is to replicate the mechanism that is used to direct some of the amounts from the EU Cohesion Fund to finance The Trans-European Transport Network (TEN-T) projects. This mechanism, a novelty introduced in the 2021-2027 programming period, obliges countries eligible for the EU Cohesion Fund (that is, those countries whose GDP per capita is below 90 % of the EU average) to transfer a pre-defined part of their national envelope from the Cohesion Fund to the Connecting Europe Facility (CEF, see Box 2). This transferred envelope is managed at the EU level to support targeted infrastructure investment at European level. Following the CEF, in an initial phase, the resources could be distributed on a competitive basis to projects taking place in the same national territory but complying with the eligibility criteria established by the CEF regulation. After a certain period, if the amounts transferred have not been fully used in the national territory, they are pooled and distributed on a competitive basis to finance projects located in any of the Member States eligible for the Cohesion Fund.

Box 2. The contribution of the EU Cohesion Fund to the Connecting Europe Facility – Transport

To improve the completion of transport projects in less developed Member States, a novelty of the 2021-2027 programming period is a mechanism that obliges those eligible for the Cohesion Fund to transfer a pre-defined amount of 'their' envelope to the CEF. These amounts are managed by the European Climate, Infrastructure and Environment Executive Agency (CINEA) – the EU executive agency in charge of implementing the CEF. In an initial phase, 70 % of the transferred envelope is used to finance projects that comply with the CEF quality standards to be eligible but are located in the national territory. The remaining 30 % of the transferred envelope is allocated on a competitive basis to projects located in any of the Member States eligible for the Cohesion Fund, giving priority to cross-border links and missing links. As of January 2024, the amounts initially earmarked to the national territory which have not been used (70 % of the total envelope) are merged and allocated on a competitive basis to projects located in any Cohesion Fund-eligible country.

This mechanism has several advantages. It allows some cohesion funding to be switched to support the EU's investment priorities (in this case, TEN-T projects). By imposing an obligation to transfer funds, it ensures that an appropriate amount of funds is allocated to finance EU-level priority projects. At the same time, the transferred money is used to support high-quality projects within the national territory. Moreover, the mechanism

creates a direct incentive for national and regional authorities to help private and public promoters in preparing projects of quality eligible for CEF funding. If these national envelopes are not fully utilised, the money is not lost but pooled and distributed at the EU level on a competitive basis. However, the distribution is not entirely ‘place-blind’ – only projects located in poorer Member States (which are eligible for the EU Cohesion Fund) can access these calls.

CONCLUDING REMARKS

Although summer 2024 is the mid-point of the 2021-27 programming period and a review of cohesion policy is due to take place in 2025, there is already a lively debate on the policy's future. Key issues include balancing its use for crisis response with its focus on long-term goals; the future governance and delivery approach; and the policy's role in supporting new EU investment priorities and how to make the policy more effective by simplifying rules, thus reducing the administrative burden and reinforcing administrative capacities. A high-level group published its findings in February 2024, noting that 'clear rules for combining long-term goals of the policy with in-built flexibility are needed[47]'.

Central to these discussions is the challenge of adapting cohesion policy to a new and complex geopolitical context. The primary purpose of cohesion policy is to provide funds for medium- to long-term investments through multiannual programming, aiming to reduce regional disparities and promote harmonious growth, and social and territorial cohesion. This planning approach is essential as it ensures a high level of predictability and a more strategic approach. However, this should be balanced with the need for more flexibility stemming from a more complex and uncertain context. Recent EU-wide crises have highlighted this limitation. Although the decisions on, and implementation of, reallocation funds were carried out relatively swiftly, only a relatively small – though not negligible – portion of the resources was reallocated in response to Covid-19 and the war in Ukraine.

Likewise, with new geopolitical challenges emerging from a complex geopolitical context, the demand for additional funds and for using EU funds for different purposes from those originally intended has grown significantly. Nevertheless, the prolonged negotiations of the mid-term MFF review suggest that the next MFF negotiations will likely be more centred on reallocating EU expenditures and repurposing available EU funds to new objectives rather than on increasing the EU's budgetary capacity.

Against this backdrop, this paper has explored ways to enhance flexibility in cohesion policy. It identifies three main types of flexibility and, based on concrete instances, highlights the advantages and challenges of those experiences, and selects options on how to enhance in-built flexibility for the next programming period. Three sets of conclusions are drawn.

First, there is a need to enhance the executive flexibility of Member States' authorities to implement their cohesion envelopes. Further simplifying cohesion policy rules and procedures garners a lot of support but it is difficult to recommend specific simplification

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[47] High-level Group on the Future of Cohesion policy (2024), *Forging a sustainable future together: cohesion for a competitive and inclusive Europe*.

measures without knowing the delivery model that would be applied to EU cohesion funds after 2027. A rather consensual, general option consists of reducing the number of EU funds and instruments supporting cohesion objectives while harmonising their implementation rules as much as possible. In contrast, it does not seem necessary to further enhance national authorities' capacity to transfer EU cohesion funds across priorities and regions, as this capacity has already increased substantially in recent years.

Second, while evidence on the use of extraordinary flexibility is still partial, two main lessons can be drawn from the recent response to Covid-19. The need to provide short-term relief to the economy and people may clash with the long-term purpose of cohesion policy investments. Furthermore, a timely reaction is essential during crises but it complicates the application of the budgetary control structure when procedures need to be expedited. Although current evidence for CRII, CRII+ shows that these challenges did not lead to major controversial or fraudulent cases, these trade-offs must be acknowledged and flexibility options should internalise them. This can be achieved by broadening the scope of the CPR's Article 20 and/or creating reserves for crisis purposes in national envelopes. Importantly, light-touch conditionality should be considered to avoid extensive deviations from long-term investment objectives to short-term goals. This is consistent with the fact that cohesion policy cannot and should not be the primary tool for responding to shocks. National policies are the first line of response to crises.

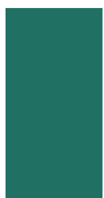
Lastly, instances of what we term 'extended flexibility' are still very limited. However, from a forward-looking perspective, given the increasing challenges the EU faces and emerging new investment priorities, such flexibility may become particularly useful. It should be acknowledged that cohesion policy alone cannot be the sole instrument for financing new EU priorities. Given Article 174 of the Treaty, which assigns a clear objective to cohesion policy, some of the new investment priorities are arguably outside the scope of cohesion policy. Furthermore, despite criticisms and shortcomings, cohesion policy has undeniably contributed to EU economic and social convergence, benefitting the union as a whole and not only direct beneficiaries of the funds.

That said, it is legitimate to explore how to foster extended flexibility in cohesion policy to address new investment priorities that can support economic convergence and social cohesion in an evolving economic landscape. As economic agglomeration increasingly drives growth, competitiveness and economic security to take centre stage as an EU priority, re-programming funds towards new investment priorities may become a necessary strategy to achieve cohesion objectives.

Assigning a higher percentage of cohesion policy resources within the national envelopes to support EU thematic initiatives, with funds distributed following a 'place-based' sensitive approach, or using EU thematic instruments could offer feasible options.

Recycling de-commitments and replicating the schemes currently in place to finance TEN-T projects are additional straightforward options. In general, re-purposing should be accompanied by smart incentives to reallocate funds that might otherwise be lost or spent inefficiently and favour projects that are cross-national or have a territorial dimension.

Overall, while flexibility in cohesion policy cannot be the sole response to the many new challenges the EU is facing, enhancing flexibility in different dimensions of cohesion policy can provide substantial leeway to make EU funds more efficient and effective in addressing the EU's needs.



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