

## *EIPA Briefing 2020/6*

# **Helping to spend it wisely: REACT-EU and the challenges of good projects**

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**EU Member States are urged to use the new financing instrument, the REACT-EU initiative, to support regional and local economies as a response to the coronavirus health crisis, to safeguard the economy and move towards recovery. But how can EU Member States use it best to deliver effective programmes and projects? It requires from Member States modification of current programmes, improved project selection, reinforced partnership, as well as attention to the current rule book. Member States need to act quickly to make sure that they can use the EU funds in time. They must be careful to ensure that the money is used in the right places, for the right goals, and in the right way.**

### **Introduction**

Cohesion Policy has been one of the key instruments used by the EU to help deal with the economic impact of the pandemic. In April, the EU adopted the Corona Response Investment Initiatives (CRII and CRII+). These initiatives help Member States with much-needed liquidity to ease pressure on central and regional budgets in sectors such as tourism, health and SME. They also provide for greater flexibility and simplification in disbursing Cohesion funds under current rules.

In July, in the context of discussion of the next MFF 2021-2027, the European Council approved the REACT-EU resources (Recovery Assistance for Cohesion and the Territories of Europe). This initiative adds a further €47.5 billion to the 2021-2027 cohesion envelope. The REACT-EU funding will be distributed among Member States, taking into account their relative prosperity and the extent of the effects of the current crisis on their economies and societies, including on youth unemployment.

Member States will be able to rely on existing key management structures in order not to delay implementation further. REACT-EU funding will be integrated the current operational programmes for 2014-2020, although most countries will amend their programmes by introducing at least one new dedicated priority axis, and some may choose to set up at national level a new programme altogether.

### **REACT-EU resources are easier to access for EU Member States**

In view of the urgency of the situation, several steps have been taken to facilitate access to the funds.

First, unlike normal Cohesion Policy, REACT-EU resources do not require co-financing by Member States. This should ease the pressure on national public finance and help countries keep their national funds for other equally urgent uses, and allow a fast roll-out of projects by beneficiaries.

Second, in order to tackle the impact of COVID-19 and the urgent need of access to financial support, the European Commission also proposes to increase the annual pre-financing to 50%.

Finally, to help speed up spending, the REACT-EU resources will follow the current eligibility, management and control rules the 2014-2020 programming period. This is an advantage as beneficiaries will have to comply with rules which they are already familiar with to spend the REACT-EU funding before the end of 2023.

### **Member States need to take special care in selecting projects**

#### Regional balance within countries

The REACT-EU resources are not geographically pre-allocated unlike other Cohesion Policy resources: it is up to the Member States to target geographical areas among its more developed, transition and less developed regions where they are most needed and will have greatest effect. Some Member States have more than 50 programmes, which adds further complexity. The wide flexibility in the process of selection of areas could also have longer term regional competitiveness consequences. Therefore a careful balance among the regions needs to be foreseen in order to prevent any REACT-EU spending further deepening the territorial gaps inside a Member State.

#### Short-term absorption and longer-term impact

Next on the list is to select projects within those areas that not only allow quick execution - because they were stalled due to COVID-19 but could be relaunched using the new resources that REACT-EU brings along - but also help build resilience for the longer term.

To guide Member States, the latest modified Cohesion Regulations allow wider specific investment focus under the European Regional Development Fund (working capital for Small and Medium-sized Enterprises, investments in health services, investments for green and digital transitions), European Social Fund (short term working schemes, social services of general interest including children, youth employment measures, support for the self-employed) and the Fund for European Aid to the Most Deprived (poverty and material deprivation). The European Semester and the 2020 Country-Specific Recommendations have also identified additional specific priority areas for each EU Member State.

The challenge is to find projects which address both the consequences of the pandemic and at the same time facilitate the transition towards a green and digital economy and societies that are more resilient. Achieving this optimal balance between short term absorption and longer term impact will require a careful balancing act by Member States.

## Partnership

REACT-EU projects should rest on a solid partnership principle and on the European Code of Conduct. The bottom-up involvement of regional authorities and civil society will help target real needs on the ground and ultimately help absorption as well. It is however important to highlight that in some countries the regions mostly affected by the pandemic are also those which lay behind in terms of absorption of resources and have capacity issues. Indeed there are wide differences in the level of absorption of 2014-2020 programmes. Hence, a special attention to capacity building could be needed.

Where this is not an issue one could simply rely on the already identified instruments and performing institutional and social partners. For instance, the Italian Guarantee fund of the ERDF “Competitiveness” operational programme has become a fast spender in a critical areas of access to finance for SME. The Guarantee fund has already benefited from an initial extra resources (€ 200 mn.) from the Italian infrastructural programme and could benefit from additional € 10 bn. of REACT-EU resources as well.

REACT-EU will be delivered using the current Cohesion Policy rules. This means that EU Member States can already make full use of the current wide simplification options available in 2014-2020. They have an opportunity to support further reduction of any administrative burdens and to opt for simplified cost options. For instance, some have already launched new calls for proposals pushing forward the dematerialisation of processes in line with the digital transition. An example of good practice could be the proposal of the Austrian ERDF Managing Authorities to further support the reduction of CO2 emissions within their quite unique model experimenting on Financing Not Linked to Cost, as foreseen by the future Cohesion Policy regulations 2021-2027.

## Keep applying the rule book

While implementing REACT-EU, Member States should keep following the rule book (public procurement, state aid, eligibility and so on), ensure sound financial management and reduce deadweight. The pressure is on swift spending but we need to counter any risks of fraud and double funding, as advocated by the European Court of Auditors in their fourth opinion of 2020.

Spending REACT-EU resources on health-related expenditures could prove particularly challenging in many countries for the following reasons: it is generally not a key priority of Cohesion funds; there is a lack of experience in managing authorities and in key beneficiaries; spending on health expenditures lags behind other ESI spending; and e-health has been problematic because of the need of digital skills of the workforce.

In specific areas EU Member States should ensure greater coordination between projects on the ground and different programmes, for example between ERDF and Just Transition Fund or between ESF and SURE (Support to mitigate Unemployment Risks in an Emergency).

## Conclusions

EU Member States need to adapt their Cohesion programmes to deliver on the REACT-EU initiative. The challenges they face are to:

- absorb the resources made available currently by CRII/CRII+ (€ 37 bn.) and REACT-EU (€ 47.5 bn. as soon as the overall Recovery Package is approved, hopefully in 2020) before the end of 2023;
- ensure a proper project selection, sending funding where it is most needed and where it will bring the most benefit by identifying “quick winners” in their current spending;
- further involve local/regional authorities, social partners and civil society, as well as reactivate the partnership principle; and
- take advantage of this opportunity to push further the agenda on reduction of gold-plating, simplification and the core principle of value for money.

Despite these challenges, EU member states will have to spend their EU funds consciously and promptly whilst developing their national plans, carrying out project selection to deliver on the REACT-EU initiative, supporting regional and local economies.