STUDY

Requested by the CONT Committee

Lessons learned from the implementation of crisis response tools at EU level

Part 2: Future challenges, parliamentary control and policy options

Policy Department for Budgetary Affairs
Directorate-General for Internal Policies
PE 766327 – November 2024

EN

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Part 2: Future challenges, parliamentary control and policy options

Abstract

Building on Part 1, which draws lessons from the implementation of CRII, CRII+, REACT-EU and SURE, Part 2 of this study explores alternative approaches to enhance the EU budget's capacity to respond to crises and discusses the implications of these options from the point of view of control and accountability.

This document was requested by the European Parliament's Committee on Budgetary Control.

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Original: EN

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Manuscript completed in November 2024

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CONTENTS

LIST OF ABBREVIATIONS 4

LIST OF BOXES 5

LIST OF FIGURES 5

LIST OF TABLES 5

EXECUTIVE SUMMARY 6

1 INTRODUCTION 11

2 PUBLIC BUDGETING IN RESPONSE TO COVID-19: CHALLENGES IN DESIGN, CONTROL AND ACCOUNTABILITY 15

2.1 Design challenges 15

2.2 Management and control challenges 16

2.3 Accountability challenges 17

3 THE ROLE OF THE EU BUDGET IN RESPONSE TO CRISES 19

4 USING COHESION POLICY FUNDS TO ADDRESS CRISES 22

4.1 Basic principles guiding the use of cohesion policy funds in response to crises 22

4.1.1 Design of the interventions 22

4.1.2 Control and monitoring of the interventions 24

4.1.3 Accountability of interventions 25

4.2 Options to regulate the use of cohesion policy funds in response to crises 25

4.2.1 A general flexibility regime to address all crises 27

4.2.2 A thematic flexibility regime to respond to natural disasters 29

4.2.3 National reserves to address natural disasters 30

4.2.4 An EU-level reserve to increase support in the event of severe crises 31

5 REINFORCING THE EU BUDGET CAPACITY FOR CRISIS RESPONSE 32

5.1 Turning SURE into a permanent instrument? 32

5.1.1 Is SURE still relevant? 32

5.1.2 Legal feasibility 33

5.1.3 EU budget implications 34

5.1.4 Monitoring and reporting considerations 35

5.1.5 EU job retention schemes vs unemployment benefit schemes 36

5.2 Comparing different EU lending instruments from the perspective of control and accountability 36

5.3 Beyond lending: other EU budget instruments to address crises 43

6 CONCLUSIONS AND SUMMARY OF POLICY RECOMMENDATIONS 48

REFERENCES 52

LIST OF ABBREVIATIONS

BoP	Balance of Payments Facility
CARE	Cohesion's Action for Refugees in Europe
CPR	Common Provisions Regulation
CRII	Coronavirus Response Investment Initiative
CRII+	Coronavirus Response Investment Initiative Plus
EAR	Emergency Aid Reserve
ECA	European Court of Auditors
EFSM	European Financial Stabilisation Mechanism
EISF	European Investment Stabilisation Function
EMF	European Monetary Fund
ERDF	European Regional Development Fund
ESF+	European Social Fund Plus
ESI	Emergency Support Instrument
ESIF	European Structural and Investment Funds
ESM	European Stability Mechanism
EURS	European Unemployment Reinsurance Scheme
EUSF	European Union Solidarity Fund
FMIS	Financial Management Information System
GDP	Gross domestic product
HERA	Health Emergency and Preparedness Response Authority
MFA	Macro-financial assistance
MFF	Multiannual Financial Framework
MoU	Memorandum of Understanding
NGEU	Next Generation EU
PIF	Protection of the EU´s Financial Interests
REACT-EU	Recovery assistance for cohesion and the territories of Europe
RRF	Recovery and Resilience Facility
STW	Short-time work
SURE	Support to mitigate Unemployment Risks in an Emergency
TFEU	Treaty on the Functioning of the European Union
UCPM	Union Civil Protection Mechanism

LIST OF BOXES

Box 1: The use of COVID-19 result indicators in France 17

Box 2: The national level as the first line of response to crises 21

Box 3: Escape clauses in the new EU fiscal governance framework 28

LIST OF FIGURES

Figure 1: Size of COVID-19 related fiscal measures as a % of GDP – 2020-2022, selected EU countries 21

LIST OF TABLES

Table 1: Four different complementary tools to regulate the use of cohesion funds in response to crises 26

Table 2: Overview of the EU's lending instruments 40

Table 3: Other EU budgetary tools to respond to crises 46

EXECUTIVE SUMMARY

Background

Building on Part I of this study, which assesses the implementation of four temporary crisis instruments established in response to COVID-19 –CRII, CRII+, REACT-EU, and SURE – this second part of the study investigates alternative approaches to strengthening the EU budget's capacity to address future crises and examines the implications of these approaches for control and accountability. Specifically, the study addresses the following key questions:

- How can we mitigate risks related to the repeated use of the cohesion policy to address crises, which may detract from its primary strategic goal?
- What ex-ante and ex-post measures could improve the balance between speed and flexibility, on the one hand, and sound financial management and performance control, on the other, when implementing crisis-related instruments that stem from the EU budget?
- What policy options could strengthen the EU's budgetary capacity to respond effectively to crises? And what options should be considered if SURE were to become a permanent feature of the EU policy landscape?

Challenges

Evidence on CRII, CRII+ and REACT-EU shows that, overall, these instruments were effective in responding to the COVID-19 crisis. However, the relevance and cost-efficiency of some specific measures financed through these instruments is questionable and tracking their performance has proved to be very challenging. The use of these flexibilities resulted in a shift of funds from long-term to short-term priorities, compromising the cohesion policy's overall goal. While the rules on monitoring and control were not relaxed, less rigorous oversight of expenditure due to time constraints and the complexities of applying new crisis-related rules resulted in an increase in the number of errors for EU cohesion policy funds.

SURE was also effective overall, providing a relevant and fast response to the crisis. However, monitoring performance has been very problematic and some of SURE's benefits – such as the creation of job retention schemes in countries that previously lacked them and the issuance of social bonds – were one-off and specific to the COVID-19 crisis and may not recur in future crises.

Since COVID-19, the EU has relied on other temporary, ad hoc mechanisms to address the consequences of evolving crises. Looking forward, several factors – most notably the growing intensity of climate-related disasters and a more volatile and polarised geopolitical landscape – heighten the chances of new and unforeseen shocks and emergencies that will require a budgetary response from the EU.

While it is advisable to enhance the capacity of the EU budget to address large-scale shocks and emergencies, the EU budget cannot and should not serve as the primary defence against shocks. EU actions must be targeted, bringing added value in the form of coordination gains or economies of scale. The EU should also support national crisis responses in a spirit of solidarity but must ensure that such support aligns with the EU's longer-term objectives and strategies.

An additional reason justifying greater EU involvement in response to emergencies is more pragmatic. The EU budget, in its current form, is mostly a long-term investment budget. A large amount of EU funds are allocated and planned years in advance compared with the time of actual spending. A crisis context may render the timeline or scope of some planned investments no longer appropriate.

Taking into account all these considerations, this study sets out basic principles that should guide the design, control and monitoring of the use of EU cohesion policy funds when being used in response to crises. It then develops some recommendations on possible mechanisms to regulate the use of EU cohesion policy funds in crises, aligned with these guiding principles. The second part explores policy options to enhance the EU budget's crisis responsiveness capacity. Building on lessons from SURE and a review of existing EU crisis tools for large-scale crises, it proposes options for establishing permanent SURE-like mechanisms.

Basic principles guiding the design, control and monitoring of EU cohesion policy funds in response to crises

The following principles should be kept in mind when using EU cohesion policy funds for crisis response:

- There should be **clear and targeted rules regulating the use of EU cohesion policy funds in times of crisis.** As a general rule, the readjustment of EU cohesion programmes should be permitted whenever exceptional and unforeseen circumstances arise that make the planned implementation of EU cohesion policy funds unfeasible. The decision should not be left in the hands of the Member States; EU authorities should assess and determine whether the conditions are met.
- **Conditions should be imposed when using cohesion policy funds to finance crisis-relief actions.** For instance, support for repairing damaged infrastructure should be conditional on respect to the 'build back better' principle.
- The **use of 100 % EU financing** should be avoided. A better way of swiftly providing liquidity is by increasing the pre-financing rates.
- Both the EU and national authorities should adapt their **fraud prevention strategies**, as spending in times of crisis carries a higher risk of fraud. It is also advisable to simplify procedures to avoid a higher number of irregularities resulting from the implementation of different crisis-related rules, and the inherent additional crisis-related strain on already scarce administrative resources.
- Member States should be required to adapt their national financial management systems to **tag all additional expenditures mobilised in response to a crisis**. In cases in which crisis-related provisions expand the scope of eligible measures, the Commission should establish **new policy objectives or specific objectives** – and possibly relative indicators – to track the use of funds.
- Member States should be required to construct simple **output indicators** (i.e. the number of beneficiaries or number of enterprises supported) to track performance. Establishing crisis-related common indicators (as was the case for COVID-19) is only appropriate in the event of large-scale crises affecting the EU as a whole.
- The Commission should develop **specific reporting tools** to provide information about the use of cohesion policy funds in response to shocks and emergencies, such as a dedicated report or dedicated open data portals.
- The adoption of **a 'financing not linked to cost' approach** does not seem appropriate when EU cohesion policy funds are implemented in response to shocks and emergencies. The definition of intended outputs and outcomes *ex ante* is very challenging in times of crisis. Moreover, a performance-based reimbursement approach limits the ability of EU control and audit authorities to monitor the use of funds. This is particularly inappropriate given the higher risk of fraud in response to emergencies.

Four options to regulate the mobilisation of EU cohesion policy funds to address crises

Based on the type of approach adopted (use of flexibilities vs reserves) and the type of crisis addressed (all types of unforeseen circumstances altering the implementation of EU cohesion policy funds vs natural disasters), one can imagine four different options to regulate the use of cohesion policy funds in response to crises. These options are complementary and can be applied cumulatively.

The first option is to establish a **general crisis flexibility regime.** Building on the current Article 20 of the Common Provisions Regulation, this would enable the Commission to grant temporary flexibility to Member States facing exceptional or unforeseen circumstances. Similar to Article 20, the mechanism could be triggered by a Council declaration acknowledging the existence of a crisis that justifies mobilising EU cohesion policy funds. To simplify activation, contrary to Article 20, the Council's recognition of a crisis should not be conditional on decisions related to the suspension of EU fiscal rules. Additionally, the flexibility measures granted to Member States could be expanded. Beyond the current provisions of Article 20, countries affected by crises could be allowed greater leeway to reallocate resources across funds and regions or to finance newly eligible measures.

A second option is a **thematic flexibility regime for natural disasters.** This option entails the creation of a specific flexibility regime allowing Member States to rapidly reallocate cohesion resources in response to natural disasters. It would be built on the Commission's recent RESTORE proposal. As in the RESTORE proposal, the regime would enable Member States to shift their cohesion resources to cope with natural disasters, and the scope would go beyond the strict 'severe disasters' definition currently applied under the EU Solidarity Fund.

However, unlike in the RESTORE proposal, Member States would not have unilateral power to activate such measures; rather, the Commission would have to assess and validate their activation. To safeguard the long-term strategic objectives of EU cohesion policy, the RESTORE-proposed limit of 10 % of a national cohesion envelope would be retained. Additionally, the 'build back better' principle would be incorporated as a mandatory condition and Member States would be requested to ensure that recovery efforts align with a comprehensive long-term climate adaptation strategy. To further enhance cost efficiency, the proposal would not include the granting of a 100 % EU financing model but pre-financing levels would be increased from 30 % to 50 %.

A third option is the establishment of **optional national crisis reserves** to provide managing authorities with additional funds in response to natural disasters. This optional reserve would be activated following the same procedure as the thematic flexibility regime for natural disasters – that is, the Member State would request its activation in the event of a natural disaster with significant repercussions at the national or regional level (even if not 'severe'). The Commission would assess the request and determine the appropriateness of activating the reserve. The use of the reserve would be governed by the same rules as the thematic flexibility regime concerning the scope of interventions, pre-financing, and adherence to the 'build back better' principle. In the middle of the programming period, Member States would have the option to transfer any unspent reserves to other projects, based on performance and needs criteria.

A fourth option is to establish a **dedicated, EU-level cohesion crisis reserve**. The reserve would be managed by the Commission and activated in response to severe crises impacting the entire EU (e.g. the COVID-19 pandemic) or a single Member State. This would include 'severe national disasters' as defined by the EUSF or other major crises impacting a Member State.

When reacting to an EU-wide crisis, disbursements from the EU-level reserve would be allocated according to an ad hoc distribution key, considering both the scale of the crisis and Member States'

financial capacities. When responding to severe crises in Member States, the distribution would follow the 'first come, first served' approach (like the EUSF).

An EU-level reserve would be especially useful during the second half of the programming period when Member States risk having fewer available resources for reprogramming and national cohesion reserves may no longer be in place. To guarantee the capacity to react to crises occurring during the last years of the programming period, the Common Provisions Regulation could impose a minimum percentage of funds left aside to be used during the last 3 years of the Multiannual Financial Framework.

Should SURE be converted into a permanent instrument?

There is broad consensus that the SURE instrument was relevant and effective. This success led several commentators to propose making SURE, which ended in December 2022, a permanent mechanism to be activated as needed.

Legally, there are no significant obstacles to such a move, but the economic rationale is debatable. **While SURE was a successful response to COVID-19, the future benefits of such an instrument may be too limited to justify creating a permanent version**. From an EU budgetary perspective, it may be more efficient to reform existing macroeconomic instruments, such as the European Financial Stabilisation Mechanism, rather than establish a new instrument.

Rather than a permanent SURE, it is advisable to **enhance the scope of the European Financial Stability Mechanism (EFSM) to include labour market shocks**. This would lead to the establishment of a single EU loan-based mechanism, under the existing EFSM. Its scope could explicitly incorporate the SURE objectives, without needing to set up a new permanent SURE instrument. The EFSM scope could be extended to work as a single EU macroeconomic tool for crisis response designed to provide financial assistance to any EU Member State experiencing or threatened by severe financial difficulties.

Specifically, the EFSM could provide targeted relief for Member States facing dramatic public expenditure increases due to measures aimed at mitigating unemployment and income loss, including but not limited to short-term work schemes. The existing guarantee system could be strengthened to increase lending capacity, with minimal risk to the EU budget. Monitoring, reporting, and control mechanisms, including those for protecting the EU's financial interests, are already in place for the EFSM and would not need significant changes. Still, performance reporting could be improved based on the experience of SURE. Further reflection is needed on the issue of macroeconomic conditionality, which determines access to loans. While conditionality should remain, it should be carefully calibrated to avoid creating barriers for countries in genuine need.

A coherent EU budget 'toolkit' to address shocks and emergencies

The EU budget relies on some small EU-level mechanisms and instruments dedicated to responding to emergencies, such as the Union Civil Protection Mechanism/RescEU, the Emergency Support Instrument (ESI) and the EU Solidarity Fund (EUSF). Due to their limited scale, these instruments cannot provide a commensurate response to large-scale crises such as COVID-19. In the event of big shocks, there is a need to rapidly increase the EU's financial capacity. This can only be done through borrowing and lending. However, small EU emergency instruments can play a valuable complementary role in the response to large shocks. For example, the EU's joint COVID-19 vaccine strategy was funded by EUR 2.15 billion from the ESI instrument, supplemented by contributions from national governments.

The EU emergency instruments could also work in coordination with EU cohesion policy funds to support Member States in case of emergencies. Flexibilities and national reserves would reinforce

national-level or regional-level emergency programmes, whereas these EU-level instruments serve to finance and organise short-term cross-country solidarity amid national emergencies.

Finally, the use of an EU-level cohesion reserve could work in complementarity with the EU Solidarity Fund (EUSF). The cohesion reserve would have a broader scope of action than the EUSF, covering both man-made and 'severe' natural disasters. Additionally, for natural disasters already covered by the EUSF, the cohesion reserve would provide supplementary support, enhancing the total EU funding available. Crucially, it would also enable much faster financial assistance to affected Member States, ensuring more timely relief.

1 INTRODUCTION

Building on lessons learned from the four temporary crisis instruments set up in response to COVID-19 – namely, CRII, CRII+, REACT-EU and SURE[1] – as analysed in Part 1, this second part of the study examines challenges encountered in the design, implementation and oversight of EU budget responses to COVID-19. On the basis of this analysis, complemented with insights from other studies on public budgeting during COVID-19, the study explores alternative approaches to enhancing EU budget capacity to respond to future crises and discusses the implications of these options from the point of view of control and accountability. Specifically, we address the following questions:

- How can we mitigate risks related to the repeated use of the cohesion policy to address crises, which may detract from its primary strategic goal?
- What *ex-ante* and *ex-post* measures could improve the balance between speed and flexibility when implementing crisis-related instruments that stem from the EU budget while ensuring sound financial management and performance control?
- What policy options could strengthen the EU's budgetary capacity to respond effectively to crises? And what options should be considered if SURE were to become a permanent feature of the EU policy landscape?

To this end, it is worth recalling the key findings from Part 1 and outlining the detailed objectives of Part II.

Key findings from Part 1

Part 1 of the study examines the implementation and achievements of four different EU instruments for crisis response:

- **CRII and CRII+**, which introduced exceptional temporary flexibility to redeploy 2014-2020 cohesion funds in response to the COVID-19 crisis;
- **REACT-EU**, which provided extra EU cohesion policy funds to Member States between 2020 and 2023 to finance crisis-repair and crisis response measures;
- **SURE**, a temporary scheme offering financial support in the form of loans to Member States between 2020 and 2022 to finance short-term work schemes (STW) or similar measures.

The four EU initiatives were adopted in response to the COVID-19 crisis but there is a fundamental distinction between SURE and the other three. CRII/CRII+ and REACT-EU aimed to facilitate the repurposing of EU cohesion policy funds (grants) to address the consequences of the crisis, whereas SURE operated as a loan-based scheme funded by EU borrowing, with only limited guarantees from the EU budget. This distinction has important implications for accountability and control, warranting a separate analysis.

CRII/CRII+ and REACT-EU

Evidence on CRII/CRII+ and REACT-EU shows that, overall, the three instruments were effective in responding to the COVID-19 crisis. CRII/CRII+ provided Member States with an upfront cash injection from unspent 2014-2020 EU cohesion policy funds, which would normally have to be returned to the EU budget. It also simplified programme implementation and enabled the repurposing of EU cohesion

[1] CRII refers to the Coronavirus Response Investment Initiative, CRII+ refers to the Coronavirus Response Investment Initiative Plus; REACT-EU refers to Recovery assistance for cohesion and the territories of Europe; and SURE refers to Support to mitigate Unemployment Risks in an Emergency.

policy funds to support areas hardest hit by the crisis. REACT-EU built on and strengthened some of the CRII/CRII+ measures while also funding medium- to long-term response initiatives to the crisis.

All the same, the analysis highlights some issues and open questions for the future.

First, the relevance and cost-efficiency of some of the measures financed through CRII/CRII+ and REACT-EU are unclear. As shown in Part 1 of the study, the sudden onset of the pandemic left no room for *ex-ante* assessments. A rapid response was of the essence for effectiveness but at times it came at the cost of efficiency. For instance, the application of 100 % EU financing under CRII/CRII+ was effective in easing fiscal pressure on governments. But allowing projects to be entirely funded by the EU budget with no national contribution increased the risks of moral hazard and may have impacted project quality. Likewise, the CRII/CRII+ amendments permitted working capital support for all SMEs without any strings attached. While this was effective in quickly delivering relief to struggling SMEs, it also raised cost-efficiency concerns.

Second, tracking the performance of CRII/CRII+ and REACT-EU is very challenging. In particular, the voluntary reporting of COVID-19 specific indicators used for CRII/CRII+ and the wide flexibility granted to national authorities in defining the COVID-19 related indicators make cross-country comparisons difficult, especially on fund allocation and beneficiaries.

Third, despite pressure from Member States, the Commission did not relax the rules on management and control applied to crisis-related cohesion expenditure. The European Court of Auditors (ECA) reported an increase in the number of errors for EU cohesion policy funds in 2022 and 2023, partially attributed to the use of REACT-EU and CRII/CRII+[2]. The greater number of errors probably results from less rigorous oversight of expenditure due to time constraints and the complexities of applying new crisis-related rules when using multiple EU funding streams.

Fourth, Part 1 acknowledges the concerns about the higher risk of fraud and irregularities raised by the ECA in its Opinions on the CRII and REACT-EU proposals (2020)[3] but does not find evidence of fraud related to the implementation of CRII/CRII+ or REACT-EU. The Commission's latest annual Report on the Protection of the European Union's Financial Interest ('PIF Report'), published after Part 1 of this study, highlights a significant increase in the number of fraudulent irregularities reported under the EU cohesion policy in 2023[4]. However, there is no evidence that this increase stems from the use of crisis-related flexibilities as the number of reported fraudulent irregularities typically rises at the end of the programming period.

Finally, the application of CRII and CRII+ flexibilities resulted in a shift of funds from poorer to richer regions, compromising the cohesion policy's objective of reducing regional disparities. Additionally, funds were reallocated to short-term crisis-relief measures at the expense of long-term investment priorities, raising concerns about the potential diversion of the policy from its original goals.

SURE

Part 1 concludes that SURE was effective overall, providing a relevant and fast response to the crisis. The SURE loans incentivised the establishment of STW schemes in countries that did not have such instruments before the crisis and the expansion of existing ones. This is found to have helped preserve jobs and maintain workers' labour market attachment, benefiting both employees and companies

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[2] In its annual 2023 report, the Court estimates that 5 % of the 9.3 % error rate for cohesion policy can be attributed to transactions with additional funding from REACT-EU or resulting from the use of CRII, CRII+ and CARE provisions.

[3] See the ECA's Opinion 3/2020 on the CRII proposal and Opinion 4/2020 on the REACT-EU proposal.

[4] European Commission (2024), *35th Annual Report on the Protection of the European Union's financial interests and the Fight against fraud* (´PIF report'), Brussels, COM(2024) 318 final, 25.7.2024.

during a critical period. SURE also generated significant financial benefits to governments, with an estimated EUR 8.5 billion in interest payment savings compared with Member States borrowing independently. It also positioned the EU as a major issuer of social bonds, contributing to its ESF (Environmental, Social and Governance) profile. Still, this assessment raises some points of reflection about the future benefits of turning SURE into a permanent instrument.

For a start, some of SURE's benefits – such as the creation of job retention schemes in countries that previously lacked them and the issuance of social bonds – were one-off and specific to the COVID-19 crisis and may not recur in future crises. While SURE financial benefits, like easing Member States´ access to financial markets at favourable conditions, can be replicated in future crisis situations, the extent of such benefits would depend on market conditions and the EU´s credibility as a borrower. Thus, while the experience with SURE shows the value of sufficient EU financial capacity to react to extraordinary, large-scale crises, establishing a permanent SURE instrument requires careful consideration.

Furthermore, tracking SURE's performance proved problematic. While Member States were asked by the Commission to report on the use of the loans' proceeds, they were subject to no formal reporting obligations to the EU on the uptake of schemes supported by SURE, though reporting demands from the Commission increased over time. This lack of formal requirements aligns with the nature of SURE as a loan-based instrument, supported by Member State guarantees, where implementation risks fundamentally lie with individual Member States, rather than the EU.

Additionally, the complexity of the monitoring was considerable, especially for countries newly adopting the schemes. Beneficiaries included individuals and businesses, and support could be disbursed multiple times, occasionally with interruptions, to the same recipient. The fact that most Member States initially provided only estimates of the beneficiaries indicates limitations in national monitoring systems. Such deficiencies can create reputational risks for the EU, should the loan proceeds not be used according to sound financial management principles.

Objectives of Part 2

Part 2 builds on lessons learned from the use of instruments related to COVID-19 as well as other recent crises. Since COVID-19, the EU has faced new shocks and emergencies necessitating additional temporary, ad hoc budgetary responses.

More specifically, new flexibilities have been introduced amending the Common Provisions Regulation[5] to address the consequences of the Ukrainian refugee crisis of 2022 – the Cohesion's Action for Refugees in Europe (CARE) initiative, followed by CARE+ and FAST-CARE. The war in Ukraine has also led the EU to create new instruments tied to the EU budget to provide short-term liquidity support to Ukraine. After the first package of macro-financial assistance plus (MFA+) loans, the 'Ukraine Facility' was approved, financed by a reserve above the Multiannual Financial Framework (MFF) ceilings. More recently, a second package of MFA+ loans has been agreed upon with guarantees from the profits of Russia's frozen central bank assets. At the time of writing, the European Commission has also proposed a new measure to grant permanent flexibility to Member States to use EU cohesion policy funds in response to natural disasters (the RESTORE proposal).

[5] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund

Looking ahead, various factors – like the ever more intense climate-related catastrophes and a more volatile and polarised geopolitical context – are increasing the likelihood of new, unexpected shocks and emergencies requiring a swift and effective budgetary response from the EU. Against this background, the objective of Part 2 is to discuss different options to increase the EU budget capacity for crisis response on a permanent basis and assess their implications from the perspective of monitoring, control and oversight. Building on Part 1, we distinguish between two types of initiatives:

- those consisting of the mobilisation of EU cohesion policy funds in response to crises (Section 4);
- those consisting of the set-up of new and/or the expansion of dedicated EU mechanisms for crisis response guaranteed by the EU budget (Section 5).

In Section 2, drawing on Part 1 and with the help of literature reviewing national responses to the COVID-19 crisis, we discuss in more detail the main challenges encountered in the preparation, implementation and control of budgetary responses to the COVID-19 crisis. Section 3 provides some basic ideas and principles that should guide the use of the EU budget in response to shocks and emergencies. Section 4 examines in more detail the key challenges associated with the mobilisation of EU cohesion policy funds in response to crises and sketches various options to enhance the crisis-response capacity of the EU cohesion policy funds. Section 5 builds on the experience of SURE to discuss the possibilities to develop a permanent EU budget capacity for crisis response based on lending. It also delves into the features of different dedicated EU budget tools and mechanisms that are used to react to emergencies and explore the potential synergies and complementarities between these instruments and the use of cohesion policy in response to crises. Section 6 concludes and provides policy recommendations.

2 PUBLIC BUDGETING IN RESPONSE TO COVID-19: CHALLENGES IN DESIGN, CONTROL AND ACCOUNTABILITY

Part 1 of this study identifies a series of challenges encountered in the design, implementation and monitoring of EU budget responses to the COVID-19 crisis. Some of them were specific to the EU level but others were very similar to those experienced by national governments (both within and outside the EU) when planning and implementing their own budgetary responses to COVID-19 (Anessi Pessina et. al. 2020, Allen 2022, Barroy et. al. 2020, IMF 2020a, IMF 2020b, IMF 2020c, OECD 2020a, OECD 2020b, OECD 2021). In particular, both the EU and national authorities were confronted by the complexities of (i) designing effective and commensurate crisis responses within a short time; (ii) quickly disbursing the money without compromising control; and (iii) guaranteeing appropriate accountability of the emergency measures.

2.1 Design challenges

The COVID-19 pandemic compelled national governments to mobilise massive amounts of extra funds within a very short time. Funds were needed urgently, prompting governments to first rely on existing rules for redeployments and activate contingency reserves. However, in most cases, these measures proved insufficient, leading governments to seek parliamentary approval for supplementary budgets. In some countries, it was also necessary to lift or adjust expenditure ceilings for the budget year or temporarily suspend fiscal rules.

Over 40 countries established special entities or funds during the COVID-19 crisis to manage emergency spending, especially in the health sector. These special funds provided flexibility and enabled a combination of public and private spending but also introduced significant risks, such as a lack of transparency and accountability (Allen 2022). They also increased the fragmentation of health policy instruments – an area already marked by multiple funding streams (Barroy et al. 2020).

Another difficult task was to design effective and comprehensive policy interventions in a context of huge uncertainty and time constraints. Drawing from a meta-analysis of different studies complemented by lessons from the Italian experience, Anessi-Pessina et al. (2020) observe that a specific challenge was that of coordinating interventions by different tiers of government. In the Italian case, for instance, information exchanges between the central government, regions and municipalities were complex and decisions were too centralised.

A highly popular measure in most countries was the provision of short-term liquidity support to firms and workers. Three main categories of measures were used for that: job retention schemes, tax deferrals and direct support through grants and loans. At the start of the pandemic, governments provided unconditional support to all SMEs. But when infection rates started to decrease, more stringent eligibility conditions were introduced to benefit from this aid. Resources allocated to emergency support were scaled down and governments put into place new structural measures to help viable SMEs digitalise or increase their competitiveness, in the context of broader recovery packages. As pointed out by an OECD paper on SME and entrepreneurship policy responses to COVID-19 (OECD 2021), in some cases governments linked the short-term liquidity support with long-term investment support to smooth the transition for firms and workers. For instance, in France and Germany financial incentives were offered to firms to promote training to workers participating in job retention schemes. In some countries – Hungary and the Netherlands – participation in training was mandatory to receive short-time work subsidies.

These insights resonate with some of the findings from the analysis of CRII/CRII+, REACT-EU and SURE in Part 1 of this study. Like in many countries, the EU response to COVID-19 required the establishment

of off-budget instruments – NextGenerationEU (NGEU) and SURE – which raised some issues in terms of accountability. As at the national level, an important share of EU funds financed job-retention schemes and the provision of liquidity support to SMEs. There were, however, no specific conditions attached to the provision of this support, nor was there a predefined plan to scale down this type of support over time.

2.2 Management and control challenges

During the COVID-19 pandemic, governments had to speed up execution. Apart from resorting to emergency public procurement procedures, which were already regulated by law, many governments introduced new practices, particularly to accelerate payments in the health care sector. This included temporarily streamlining and shortening financial processes or increasing advance payments to health service providers as a complement to retrospective reimbursements (Barroy et al. 2020).

The management of increased expenditures in a short timeframe and the expansion of government action in new areas – such as the organisation of massive vaccination campaigns – posed challenges for monitoring and control. Most governments introduced changes in their Financial Management Information System (FMIS) to be able to track all additional COVID-19 related spending (IMF 2020a). Countries adopted various approaches. Some, like France, established dedicated programmes or budget chapters comprising all COVID-19 expenditures. This facilitated the tracking of funds. Other countries (e.g. Greece and Slovenia) did not create specific budgetary lines and opted instead to channel support through pre-existing programmes (e.g. topping up pre-existing social protection schemes). In these cases, the identification of COVID-19 spending was not mandated but, nevertheless, many countries introduced specific COVID-19 tagging systems to collect information on pandemic-related spending. In Greece, for instance, a new earmarked budget code was created for appropriations in relation to the implementation of protection measures from COVID-19 (OECD 2020b).

In some countries, specific attention was paid to monitoring fiscal risks linked to the expansion of off-budget measures, such as guarantees and loans. While it is usual to report on contingent liabilities as part of the usual accounting processes, the data are usually published at the end of the year. Some countries adopted measures to provide more timely and regular data. In Austria, for instance, COVID-19 related guarantees were reported quarterly by the Ministry of Finance. In Germany, records of guarantees and loans were published monthly, along with the names of beneficial owners (OECD 2020b).

In some countries where internal control and audit mechanisms were deemed insufficient, external oversight was improved. For instance, in Peru the powers of the Supreme Audit Institution were enhanced to enable it to conduct concurrent monitoring during the implementation of crisis-related measures rather than being limited to conducting *ex-post* audits (IMF 2020b).

As explained in Part 1 of the study, at the EU level the Commission did not ensure full tracking of all COVID-19 related spending. REACT-EU transactions could be tracked thanks to the introduction of a dedicated REACT-EU objective. By contrast, expenditure reallocated through the use of CRII/CRII+ flexibilities could not be distinguished from 'normal' cohesion expenditure (ECA 2023).

Some measures were put in place to strengthen the internal controls on the use of COVID-19 expenditure. DG REGIO's 2022 Annual Activity Report (European Commission 2022a) notes that, in 2022, DG REGIO requested national audit authorities to pay particular attention to new risks related to the flexibilities introduced with the CRII/CRII+ amendments and the multiplication of funding instruments. Such attention was required to mitigate the risk of 'double funding' (the same expenditure being reimbursed by two different funds) and unjustified use of emergency public

procurement procedures. While these risks did materialise in some cases, 'DG REGIO paid attention in its desk assessment of annual control reports whether such risks were audited, identified and whether appropriate corrective measures were taken' (European Commission 2022a: 42).

In the case of SURE, being a loan-based scheme, the risks of misuse and fraud were largely borne by the Member States requesting support. Nevertheless, the EU Financial Regulation requests that all EU loan agreements guaranteed by the EU budget include an obligation from the recipient countries to have appropriate control and audit systems. All SURE loan agreements included this obligation but did not require the Commission to assess the robustness of the Member States' control systems. As a result, the Commission's checks were initially limited to verifying that the Member States had complied with their obligation to set up the STW scheme rather than checking each Member State's control mechanisms.

In 2022, following the recommendation of the ECA, the Commission launched an ad hoc survey on audits and controls applied to SURE-supported measures. All Member States indicated in this survey that they conducted *ex-ante* controls and over half of them reported having performed specific *ex-post* controls (after the funds were disbursed) on all or most measures.

2.3 Accountability challenges

Ensuring proper reporting of the use of COVID-19 emergency funds was a common concern in many countries. The quality and type of reporting data differed from one country to another.

Some countries, with well-developed performance management frameworks, defined new COVID-19 result-specific indicators to report the impact of the emergency measures (see France, in Box 1). In other countries, input indicators or simple output indicators (i.e. number of beneficiaries) aggregating information from the FMIS were used to report COVID-19 related expenditures. In certain cases, COVID-19 expenditures were reported in the usual monthly or quarterly budget reports. Only in some countries did governments prepare ad hoc reports on COVID-19 spending for the legislature.

Box 1: The use of COVID-19 result indicators in France

The French government uses a performance-based framework to present its national budget. All expenditure is organised in missions, programmes and actions. When COVID-19 started, the government prepared an emergency plan to combat the health crisis (*Plan d'urgence face à la crise sanitaire*), recorded in the state's national budget under a dedicated 'mission'.

The plan was structured into four programmes, each having specific performance objectives linked to different result indicators. For instance, the first programme was on a 'partial unemployment scheme' and had two objectives: contributing to the sustainability of employment in the affected sectors and ensuring rapid access to a partial activity allowance for companies. The result indicator for objective 2 was the average time between the application for the allowance and its payment to the employer. The use of these performance indicators was merely informative. It served the national government to track and report on implementation of the plan.

Source: OECD, *Government financial management and reporting in times of crisis,* 19 November 2020.

Countries also differed with regard to the type and quality of information provided to the public. An IMF paper (IMF 2020c) highlights how countries that had in place fiscal transparency portals linked to their financial management information database could easily use these existing portals to publish COVID-19 related fiscal data. In many countries lacking open data portals, the government adjusted its websites to provide information on the COVID-19 responses and spending measures.

At the EU level, the Commission created a list of COVID-19 input and output indicators and invited Member States to make use of these indicators to report on the use of cohesion policy funds under CRII/CRII+. However, the use of the indicators was voluntary. Moreover, as noted in Part 1 of the study, the interpretation of these indicators diverged substantially between the Member States. To increase transparency, the Commission also set up a dedicated 'COVID-19 dashboard'[6] under the Cohesion Open Data Platform. The platform provides information on the use of cohesion funding during the crisis, relying on general data from the Cohesion Open Database and the specific COVID-19 indicators. Overall, tracking performance was difficult due to variations in reporting.

Concerning SURE, Member States were required to report on how the loan was utilised (i.e. the national schemes supported by the loan) but there was no obligation to report the number of firms supported by STW schemes funded by SURE or the number of workers, benefiting from it although the Commission provided some guidance in this regard. Over time, reporting improved, driven by explicit requests and guidance from the Commission and increased data availability. As SURE was a temporary and repayable crisis response instrument, the approach used for tracking the performance of SURE was deliberately simplified, reflecting the need for rapid action during the pandemic and the negligible risks for the EU budget. Thus, despite its inherent limitations for evaluability, the system achieved a balance between crisis-induced simplifications and performance tracking.

To conclude, EU and national policy-makers were confronted with similar challenges when planning and implementing budgetary responses to the COVID-19 crisis. Analysing how these challenges were addressed at the national level can be useful to develop some guidelines on how to use EU cohesion policy funds in response to future crises, as discussed in Section 4.

[6] https://cohesiondata.ec.europa.eu/stories/s/4e2z-pw8r

3 THE ROLE OF THE EU BUDGET IN RESPONSE TO CRISES

For multiple reasons, the exposure of the EU economy and society to major shocks and short-term, unforeseen emergencies has increased in recent years and it is likely to remain high. In consequence, there is a need to reconsider the role of the EU budget in response to these types of events.

A distinction should be made between the case of large-scale crises like COVID-19 or the 2008 financial crisis affecting all or a majority of Member States with a significant macroeconomic impact, and that of natural disasters or other emergencies (earthquakes, floods, fires or a major influx of refugees) that may have an intense but localised impact on one or a few Member States.

In the first case, there is a clear rationale for EU action given the transnational nature of the crisis. The EU level can bring added value in the form of coordination gains[7] or economies of scale[8]. Additionally, when a crisis impacts Member States asymmetrically,[9] an EU-wide response may be crucial to prevent severe economic and social disparities.

Addressing large-scale crises presents the challenge of size: to respond effectively, the EU must mobilise substantial funds quickly – something that is difficult to do with a mostly rigid and small EU budget. The quest for scale holds true even though some targeted EU initiatives in response to large crises can achieve considerable impact with relatively modest budgets. For example, the EU's joint COVID-19 vaccine strategy was funded by EUR 2.15 billion from the EU budget, supplemented by contributions from national governments.

In the second case (natural disasters and emergencies with a localised impact), EU intervention is primarily motivated by solidarity. Article 122 of the TFEU mandates that the Union 'act jointly in a spirit of solidarity' when a Member State experiences a terrorist attack or a natural or man-made disaster. To operationalise this solidarity, the EU created the EU Solidarity Fund (EUSF). However, the EUSF is limited, with an annual reserve of approximately EUR 1 billion, and is only designed to provide assistance during severe natural disasters and major health crises. As climate-related disasters become more frequent and intense, the EUSF's resources appear increasingly insufficient to cover the growing scale of potential damages.

An additional reason justifying greater EU involvement in response to emergencies is more pragmatic. The EU budget is mostly a long-term investment budget. A large amount of EU funds are allocated and planned years in advance compared with the time of actual spending. A crisis context may render the timeline or scope of some planned investments no longer appropriate. For instance, a programme to support SME investments in R&D will have very low take-up in the middle of a recession. The extension of a railway line may be no longer appropriate if the railway network has been severely damaged by flooding. A crisis can also call into question the prioritisation of certain planned interventions while making others urgent. Extreme climate-related disasters may call into question the appropriateness of some infrastructure investments while rendering others urgent. Similarly, a refugee crisis can require the rapid provision of short-term basic supplies or upscaling of healthcare capacities to the detriment of other long-term investments.

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[7] E.g. establishing common minimum gas storage obligations to ensure the security of gas supply in all EU countries during the energy crisis.

[8] E.g. jointly procuring vaccines or gas purchases.

[9] An EU symmetric shock affects all EU Member States similarly, even though the impacts can vary across countries and regions. Examples are a pandemic, like COVID-19, but also a global oil shock. By contrast, asymmetric or idiosyncratic shocks hit a country or a region, not necessarily all. Examples are a sovereign debt crisis but also drought or another natural disaster. Typically, symmetric shocks require a collective response, while for asymmetric shocks a targeted intervention is more sensible.

For all these reasons, some capacity to reallocate EU spending is necessary in response to exceptional and unforeseen circumstances. While some EU programmes have 'crisis reserves' or other mechanisms to react to unforeseen circumstances[10], this is not the case for all – and, in particular, it is not the case for EU cohesion policy.

Finally, it is also essential to recognise that the EU is intended to serve as a 'second line of response' during crises. Experience from previous crises shows that the EU budget cannot – and should not – be the primary tool for addressing large shocks and emergencies. Not only would this divert the EU budget from its long-term investment nature but it would also fall short in both speed and scale. The main responsibility for responding to such events falls on national governments (Box 2). EU-level interventions should therefore be designed to bolster national crisis responses and make sure that the latter are aligned with EU's longer-term objectives and strategies.

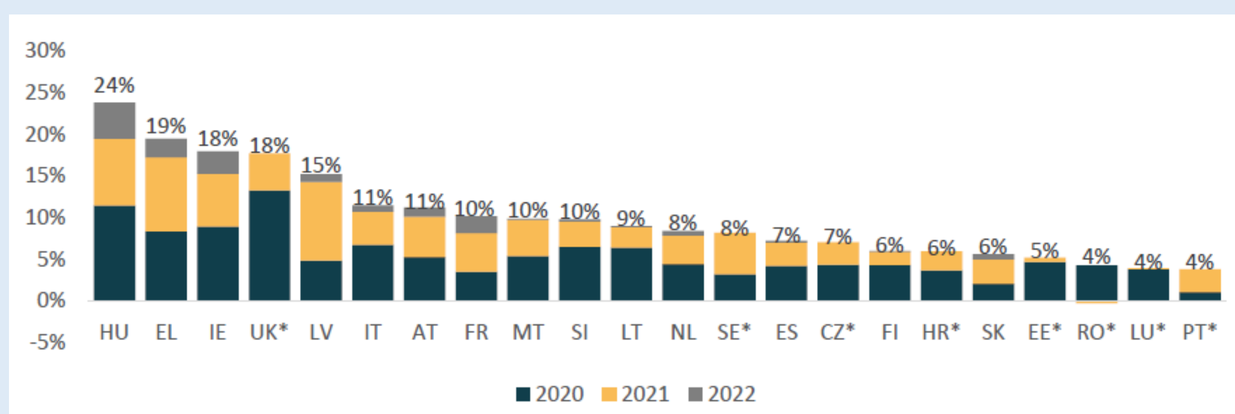
[10] For instance, the crisis reserve of the common agricultural policy (CAP), the reserve for crisis and unforeseen circumstances of the Neighbourhood, Development and International Cooperation Instrument (NDICI) or the thematic facility for the emergencies and unforeseen needs of the Border Management and Visa instrument.

Box 2: The national level as the first line of response to crises

The experience of multiple crises during the last two decades has undoubtedly shown that national (fiscal)[11] instruments are the immediate, first line of response to crises, even when emerging from symmetric shocks. Two aspects should be taken into account. The first one is about the magnitude of the crisis; the second is about the lack of timeliness in the use of EU readily available funds or potentially repurposed funds.

While the crisis induced by the COVID-19 pandemic was certainly exceptional, the magnitude of the total response by national fiscal policy is estimated in the order of trillions of euros if one includes direct spending, tax relief measures, loan guarantees, and other forms of fiscal support, even without counting the EU response (see Figure 1)[12]. This is larger than the total EU budget for the entire current programming period.

Figure 1: Size of COVID-19 related fiscal measures as a % of GDP – 2020-2022, selected EU countries



Source: EU Independent Fiscal Institutions Network, European Fiscal Monitor (January 2022), p. 13.

Note: Countries with * do not include data on fiscal stimulus in 2022.

Furthermore, national budget procedures allow for more agility in reacting to emergencies. In response to COVID-19, some countries (i.e. Sweden) approved successive, supplementary budget laws within a short time. In others (i.e. Belgium), the legislature provided authorisation to incur expenditures in advance of a subsequent appropriation, leaving the details of the expenditure available *ex post* for parliamentary scrutiny. In some countries (i.e. Canada), exceptional COVID-19 legislation granted to the executive the capacity to incur all necessary health-related spending without a ceiling (OECD 2020). These types of flexibilities are not imaginable at the EU level, where any new authorisation to spend requires an agreement between the Council and the European Parliament.

[11] In the euro area, alongside national fiscal policies, the ECB played a pivotal role in responding to crises. This was certainly the case in 2012. Mario Draghi's famous 'whatever it takes' statement, aimed at preserving the euro, is widely credited with stabilising financial markets during the sovereign debt crisis. During COVID-19 the ECB reacted very promptly by providing liquidity to the economy and through a large asset purchase programme.

[12] The figures do not cover all EU Member States and are expressed as a percentage of GDP, but it is clear that the measures added up to several hundred billion euros. Furthermore, Germany alone set up an Economic Stabilisation Fund to reduce the damage caused to the real economy, which could provide guarantees of up to EUR 400 billion for debt instruments. It is estimated that in total, EU Member States adopted almost 1 000 fiscal measures worth about EUR 3 trillion in the period from March to December 2020 (see European Fiscal Monitor, September 2020).

4 USING COHESION POLICY FUNDS TO ADDRESS CRISES

The EU's cohesion policy is the largest spending area in the current MFF. Usually presented as the 'EU's main investment policy', it aims to support long-term sustainable development in all countries and regions of the EU even if its primary focus is on least developed territories.

As shown in Part 1 of the study, cohesion policy was extensively mobilised in response to the COVID-19 pandemic. This was not the first time that EU cohesion policy regulations were adapted to address the consequences of a crisis. The Common Provisions Regulations (CPRs) for the 2007-2013 and 2014-2020 programming periods were amended 26 times, with over half of these amendments (15) linked to crisis situations (ECA 2023: 40). In particular, specific provisions were included to help regions facing serious difficulties after the financial crisis (2011-2016), assist Italian regions affected by a major earthquake (2016-2017), and facilitate the use of funds for the reception and integration of Syrian refugees (2018).

Given the unstable geopolitical context and the growing intensity and frequency of climate-related natural disasters, cohesion policy is likely to again be mobilised to respond to new shocks and emergencies. Illustrative of this trend is the European Commission's RESTORE proposal to amend the EU cohesion regulations to grant Member States enhanced flexibility to reallocate cohesion funds in the event of natural disasters, following recent floods in Central and Eastern European countries[13].

In this context, building on the insights from Section 2.1, the following section examines the key challenges associated with designing, controlling, and monitoring the use of EU cohesion policy funds in crisis response efforts, offering guidance on how to address these issues (Section 4.1). We then explore various regulatory options to facilitate the mobilisation of EU cohesion policy funds during crises while maintaining alignment with the guiding principles (Section 4.2).

4.1 Basic principles guiding the use of cohesion policy funds in response to crises

As discussed in Part 1 of this study, using cohesion policy funds to respond to crises raises issues in design, control, monitoring and accountability that need to be addressed.

4.1.1 Design of the interventions

The most important issue concerns how to **reconcile short-term crisis relief with maintenance of the long-term strategic nature of EU cohesion policy**.

To ensure this reconciliation of short-term and long-term needs, it is crucial to **limit the amount of cohesion policy funds dedicated to financing short-term crisis-relief measures**. This requires a clear definition of the circumstances justifying the mobilisation of EU cohesion policy funds and the activation procedure. As a general rule, the re-adjustment of EU cohesion programmes should be permitted whenever exceptional and unforeseen circumstances arise that make the planned implementation of EU cohesion policy funds unfeasible. The decision should not be left at the hands of the Member State. National and regional public authorities, influenced by short-term political agendas, may be incentivised to redirect funds away from their long-term objectives. EU authorities should assess and determine if conditions are met.

[13] European Commission (2024), Proposal for Restore – Regional Emergency Support to Reconstruction amending Regulation (EU) 2021/1058 and Regulation (EU) 2021/1057, COM(2024) 496 final 2024/0275 (COD), Brussels, 21.10.2024.

Apart from setting an overall limit on the amount of EU cohesion policy funds earmarked for crisis response actions, **it is imperative to impose some conditions on the design of crisis response measures** to make sure that the latter are coherent with cohesion policy's longer-term goals.

Imposing conditions on emergency actions is always tricky. Emergencies require a quick and effective response and information about who needs the money is scarce. A general rule of thumb for policymakers is that when facing an emergency, 'it is better to err on the side of giving too much rather than too little' (Blanchard 2020). This is why emergency fiscal support schemes tend to be largely untargeted and subject to light conditionality.

However, as explained in the previous section, the role of the EU budget is to work as a 'second-line' instrument in response to crises. Even in large EU recipient countries, EU funds are not expected to address all crisis-related needs but to complement national or regional-level crisis response programmes. Imposing some conditions on this targeted EU support will never prevent Member States from designing quick and largely untargeted fiscal response measures if needed. From the EU perspective, it guarantees that cohesion policy funds are not diverted from their long-term goals.

Setting some conditions is especially relevant for the provision of business support. As shown in Part 1 of this study, in many countries the cohesion-financed working capital support to SMEs was subject to no conditions. Member States could opt to use grants or repayable support (loans or guarantees) without any need to justify the choice of one or another instrument and they were free to design the scope of the programmes and the terms of the support provided.

It is outside the scope of this study to discuss whether this working capital support was effective. A study analysing the effectiveness of such programmes during the COVID-19 crisis concludes that, in many countries, largely open and untargeted programmes proved successful in quickly supporting companies during the first months, preventing widespread bankruptcies or layoffs and helping to renew market confidence (OECD 2021). Therefore, we can reasonably assume that cohesion policy funds supporting these types of national schemes were effective in achieving their intended purpose during the first months. Yet, the same OECD study recommends scaling back the generic support to firms once market conditions normalise.

Inspired by these OECD recommendations, it would be advisable to impose some conditions when EU cohesion policy funds are used to provide generic support to businesses. One condition could be to set clear time limits on these schemes – say, one year – with an obligation to scale back the support once the economic conditions normalise. Unused EU funds could be transferred to the long-term investment priorities previously depleted to finance these emergency actions. One could also imagine imposing some minimum requisites on firms receiving this type of support.

Most of the crisis support schemes are largely untargeted and provide support to all firms struggling as a result of the crisis. The EU cohesion policy funds could serve to complement nationally financed schemes, providing increased support for certain types of firms (i.e. those having the strongest growth potential for the region, or which are better aligned with the region's smart specialisation strategy). Alternatively, EU cohesion support could be open to all SMEs but with some minimum obligations imposed on all recipient firms, such as minimum social, employment, climate or environmental standards.

The imposition of conditions is also key when EU funds are used to finance responses to climate-related natural disasters. The recent Niinistö Report (2024)[14] recommends that when Member States

[14] European Commission (2024), *Safer together: Strengthening Europe's civilian and military preparedness and readiness,* Report by Sauli Niinistö, former President of the Republic of Finland in the capacity of special adviser to the President of the European Commission.

build back from a major disaster by drawing on the EUSF Solidarity Fund, at least 15 % of the EUSF received should be invested in disaster risk reduction or other peer-assessed preparedness measures. A recent report by the ECA on climate adaptation (ECA 2024) highlights that EU funding for climate adaptation tends to prioritise short-term measures over sustainable, long-term solutions. To address this imbalance, the Commission could also make the mobilisation of EU cohesion policy funds contingent upon the development of a thorough climate risk assessment after the disaster and the implementation of comprehensive, long-term adaptation strategies.

To ensure the cost-efficiency of the financed measures, the use of 100 % EU financing should be avoided. As explained in Part 1 of this study, 100 % EU financing was largely used during COVID-19 to provide immediate liquidity relief to managing authorities. While it achieved this goal, it also raised concerns about the lack of national ownership and the corresponding risk of low-quality projects. A better way of providing immediate liquidity is by increasing the pre-financing rates. This frontloads EU support but maintains national ownership of the projects financed.

Finally, at the time of writing this study, there is an ongoing debate about the possibility of using a 'financing not linked to cost' approach to organise the disbursements in the post-2027 EU cohesion policy, drawing on the experience of the Recovery and Resilience Facility (RRF). Without prejudice to the use of performance indicators for informative purposes (discussed in Section 4.1.3), the **adoption of a performance-based reimbursement approach appears ill-suited to managing EU payments related to the mobilisation of cohesion policy funds in response to crises**. On the one hand, during crises, it is very hard to define the intended outputs and outcomes *ex ante*, which are necessary to condition access to EU funds. On the other hand, the 'financing not linked to cost' approach limits the ability of EU control and audit authorities to track the use of funds managed at the national level. This reduced oversight poses significant risks, as crises often increase the likelihood of fraud and irregularities in the use of EU funds.

4.1.2 Control and monitoring of the interventions

The monitoring of cohesion policy funds in response to crises is particularly difficult. When crisis-related flexibilities allow the reallocation of resources between existing funds and programmes (as was the case for CRII/CRII+), the crisis-related expenditure cannot be distinguished from 'normal' cohesion expenditure in the Commission´s monitoring system (ECA 2023). By contrast, tracking is much easier when there is a dedicated policy objective to collect all crisis-related interventions, as was the case with the REACT-EU Regulation.

At a minimum, **Member States should be required to adapt their national financial management systems to tag all additional expenditures mobilised in response to the crisis**. In those situations in which crisis-related flexibilities are used to strengthen existing programmes, expenditure should be recorded so that it is possible to separate the amounts planned and spent before the crisis from those mobilised to address the crisis. In cases in which crisis-related provisions expand the scope of eligible measures, allowing Member States to finance new types of measures (e.g. purchasing masks or repairing damaged infrastructure following a disaster), the Commission should establish new policy objectives or specific objectives to track the use of funds.

As was done for CRII/CRII+ and REACT-EU, it is advisable to maintain the same rules for monitoring and control and the same obligations for fraud prevention and correction applied to 'normal' cohesion policy funds. Still, **both the Commission and ECA should adapt their audit strategies to the crisis situation.** The Commission should pay specific attention to whether national control and audit authorities have appropriate mechanisms to identify and correct risks resulting from extensive use of emergency public procurement procedures. National audit authorities could be encouraged to

conduct 'real-time' audits as opposed to only '*ex-post*' audits, a practice introduced in some countries during the COVID-19 crisis (OECD 2020a).

The existence of different implementation rules for crisis-related interventions and 'normal' interventions may render implementation more complex, eventually resulting in more irregularities. To mitigate this risk, **it is advisable to simplify procedures for executing crisis-related operations.** One effective approach is the development of targeted, simplified cost options for financing specific types of crisis-related activities, as was done with the CARE Regulation amending the cohesion policy rules in response to the Ukrainian refugee crisis[15].

4.1.3 Accountability of interventions

It is important to ensure proper reporting on the use of cohesion policy funds in support of crisis mitigation. Member States should regularly report to the Commission additional expenditures incurred in response to the crisis. When used to finance new interventions, they should be required to construct **simple output indicators** (i.e. number of beneficiaries, number of enterprises supported) to track performance.

Establishing crisis-related common indicators, as was done for CRII/CRII+, is advisable only when EU cohesion policy funds are mobilised in response to large-scale crises impacting many countries. Harmonising information is less relevant when cohesion policy funds are mobilised in response to country-specific emergencies.

The Commission should be able to give information on the use of crisis-related cohesion policy funds in a transparent and timely manner. During COVID-19, DG REGIO created a dedicated 'COVID-19 dashboard'. It is advisable to set up similar dedicated portals if EU cohesion policy funds are again mobilised in response to a crisis impacting various Member States. In addition, **the Commission should develop specific tools (specific reports, permanent online portals) to report the use of cohesion policy funds in response to country-specific emergencies.** Reporting should be enriched by information not only from the Cohesion Open Data Platform but also by national information provided to the Commission, presented in the most harmonised way possible. All this would be without prejudice to any specific *ex-post* impact assessment that would monitor, to the extent possible, the performance of a measure after the crisis is over.

4.2 Options to regulate the use of cohesion policy funds in response to crises

Building on the insights from the previous section, several options can be envisaged to regulate the use of EU cohesion policy funds in response to crises.

A first distinction can be made between an approach based on the use of **flexibilities** and one based on the establishment of **dedicated reserves, at either national or EU level**. Each approach comes with its own set of advantages and drawbacks and therefore it may be advisable to combine them.

Flexibilities enable Member States to reallocate resources to address new priorities and measures in response to extraordinary and unexpected events. If the rules for triggering these flexibilities are well-defined and targeted, they provide an effective mechanism to adjust cohesion policy funds to meet the demands of crises without jeopardising the policy's long-term strategic objectives. However, reallocating resources during a crisis can be administratively burdensome for national authorities.

[15] The CARE (Cohesion's Action for Refugees in Europe) Regulation – Regulation (EU) 2022/562 of 6 April 2022 amending Regulations (EU) No 1303/2013 and (EU) No 223/2014 – introduced a unit cost linked to reimbursing all the costs related to the provision of basic needs and support for people granted temporary protection. The unit cost was EUR 40 per week per refugee hosted.

Under the pressure of urgency, there is a risk of diverting funds away from critical long-term investments. Moreover, reallocation is only feasible if Member States have not fully programmed their available resources. This creates a dynamic potentially favouring countries with low financial performance rates over high-performing Member States.

The establishment of **national crisis reserves** can be a way of guaranteeing that all countries have a sufficient capacity for crisis reaction, irrespective of their absorption rate. The use of reserves could also simplify and accelerate the planning of crisis-related measures, as national managers do not need to spend time choosing where to cut to find additional resources. However, if the function of the reserve is not clearly defined, it may create risks of politicising the use of cohesion policy funds or deviating from cohesion-related objectives, e.g. using the funds to support specific political constituencies. National reserves can be useful for covering the costs of crises that, while not certain, occur with some regularity rather than highly improbable events. They nevertheless carry the potential drawback of freezing significant amounts of funds, which may remain unused if the conditions for activating the reserve are not met. To prevent this from happening, it would be wise to allow Member States to transfer the unspent resources of a reserve to other projects according to performance/needs criteria in the middle of the programming period.

Another complementary option is to establish an **EU-level crisis reserve** within EU cohesion policy. Managed by the Commission, this reserve could provide additional support to Member States affected by particularly severe crises. It would be especially useful during the second half of the programming period, when Member States risk having fewer resources available for reprogramming and national reserves may no longer be in place.

Another crucial consideration is determining **the types of crises that warrant the mobilisation of EU cohesion policy funds**. Considering the diverse nature of past crises that have led to amendments in EU cohesion regulations, **it is prudent to maintain a broad scope for crisis-related provisions.** Member States should have the flexibility to adjust their cohesion policy plans whenever exceptional and unforeseen circumstances arise that make the planned implementation of EU cohesion policy funds unfeasible. In addition, the likelihood of more intense and frequent climate-related disasters with potentially disruptive effects in the affected territories warrant the introduction of **specific provisions to swiftly mobilise cohesion resources in response to natural disasters.**

Based on the type of approach (flexibilities vs reserves) and the type of crisis (general vs natural disasters) one can imagine four different tools to regulate the use of cohesion policy funds in response to crises (table 1). These four tools are conceived as complementary tools that could be applied cumulatively. The details of each instrument are discussed in the following sections.

Table 1: Four different complementary tools to regulate the use of cohesion policy funds in response to crises

	Flexibility provisions		Reserves	
	General flexibility regime	Thematic flexibility regime	General EU-level crisis reserve	Thematic national-level crisis reserves
All exceptional and unforeseen circumstances	X		X	
Natural disasters	X	X	X	X

Source: own elaboration.

4.2.1 A general flexibility regime to address all crises

The first tool is a general flexibility regime for the use of funds in the event of exceptional and unforeseen circumstances. This could be built on the current Article 20 of the CPR[16].

Article 20 of the CPR allows the European Commission to grant temporary flexibility to Member States facing exceptional or unforeseen circumstances. Specifically, under the current Article 20, the Commission can activate four exceptional measures primarily designed to provide immediate liquidity and simplify the implementation of operations: increasing interim payments by 10 percentage points, allowing retroactive eligibility of operations, allowing retroactive eligibility of expenditures and extending the deadlines for submitting documents. These provisions are triggered through a Commission implementing act and are granted for a limited duration of 18 months. Their activation is contingent upon the Council recognising the existence of either an 'unusual event outside the control of a Member State' or a 'severe economic downturn affecting the euro area or the Union', both of which justify a suspension of EU fiscal rules. These two escape clauses remain part of the new EU fiscal governance framework, though they have been rebranded as the 'national escape clause' and the 'general escape clause' (see Box 3).

Article 20 of the CPR offers a general flexibility regime that prevents the need for successive regulatory amendments in response to new and unforeseen crises. Another advantage is that it can be used as a response to crises affecting a limited group of Member States, granting temporary flexibility only to those countries in need (in contrast to the use of regulatory amendments which are by definition applied to all countries).

However, the triggering mechanism under Article 20 is very strict. It depends on the Council's decision to suspend the application of EU fiscal rules. This is a decision that has significant implications for the conduct of national fiscal policies and ultimately the EU's fiscal stance, and which is not taken lightly. In the past the general escape clause has been activated only once, to respond to the COVID-19 pandemic. The national escape clause has been activated more times[17] but it requires a careful estimation of expected or incurred additional budgetary costs. Besides, they only apply to crises having a significant budgetary impact at national level. The difficulties of triggering the mechanism are probably one of the reasons why Article 20 of the CPR has never been used. The other reason is the Commission's focus on mobilising the remaining 2014-2020 funds (under the previous CPR) to address the various crises impacting the EU at the beginning of the programming period[18].

Another limitation of Article 20 is that the list of flexibilities offered is quite restricted, being basically intended to accelerate implementation and frontload payments.

[16] This option has been recommended by the Committee of the Regions in a special opinion on the future of EU cohesion policy post-2027. See Committee of the Regions (2023), Opinion on the future of Cohesion policy post-2027, 158th plenary session, 29-30 November 2023. Point 46 of the recommendation 'calls for establishment of a comprehensive mechanism for the use of funds in the event of exceptional or unforeseen circumstances by means of guiding provisions on its scope, funding availability, governance and application; such a mechanism, building on Article 20 of the current regulation, should prevent the need for successive and targeted revisions of the legislation in the face of negative shocks, as occurred several times in the 2014-2020 period'.

[17] For instance, between 2015 and 2017, six Member States (Austria, Belgium, Finland, Hungary, Italy, and Slovenia) were granted exemptions under the 'unusual event' clause to accommodate the extra-budgetary costs stemming from the Syrian refugee crisis (Savage et al. 2023). In 2016, Italy was also granted some flexibility in the application of the EU fiscal rules to accommodate the budgetary costs of reconstruction and anti-seismic investments following major earthquakes. In this case, flexibility was not granted under the unusual event clause but under the 'flexibility' clause, which allowed some public expenditure to be excluded from the calculation of the deficit relevant to the application of the fiscal rules.

[18] All the recent CPR amendments related to crises (CRII, CRII+, CARE, CARE+, FAST-CARE and SAFE) are amendments to the 2014-2020 CPR, the goal being to mobilise the remaining funds from the last programming period to address crises. Only FAST-CARE introduces amendments to both the 2014-2020 and 2021-2027 CPR.

Box 3: Escape clauses in the new EU fiscal governance framework

In 2020, at the early stage of the COVID-19 pandemic, the general escape clause of the Stability and Growth Pact was activated to allow Member States to respond to the crisis without the constraints imposed by fiscal rules. The clause remained in effect until 2023, extending through the energy crisis. During this period, the reform of the EU fiscal governance framework was finalised, and revised rules for both the preventive and corrective arms came into force in April 2024.

The reform marks a regime shift in the EU's fiscal framework, placing greater emphasis on a country-specific approach centred on debt sustainability, and a shift from a complex 'rule-based' system to a more 'economic analysis-based' approach*, which should allow for a degree of discretion in Member States' fiscal policy.

The reformed system contains two possible escape clauses for Member States to provide flexibility in times of economic shocks or extraordinary circumstances. The *general escape clause* can be activated during severe economic downturns impacting the EU or the euro area as a whole. This clause permits a coordinated, temporary relaxation of fiscal rules to mitigate the effects of the downturn. It can be extended for one year, renewable upon the opinion of the European Fiscal Board. The *national escape clause* is similar to the old 'unusual event clause'. It permits adjustments to a Member State's fiscal trajectory where exceptional circumstances outside the control of the Member State have a major impact on its public finances. Like the general clause, the national escape clause can also be extended for a renewable one-year period.

In both cases, the decision to activate or prolong these clauses lies with the Council, based on a proposal from the Commission. For national escape clauses, activation occurs following a request from a Member State, recommended by the Commission, and applies only to the Member State concerned.

In both cases, the activation of either escape clause must not jeopardise fiscal sustainability in the medium term, and the Council specifies a time limit for its activation period.

*See EPRS (2024), The new EU fiscal governance framework.

4.2.1.1 Description of the mechanism

Building on the current Article 20 of the CPR, one could imagine a general flexibility regime enabling the Commission to grant exceptional flexibility to Member States in the event of exceptional or unforeseen circumstances.

Like the current Article 20 of the CPR, the mechanism could be triggered by the Commission and be based on a Council declaration recognising the existence of a crisis situation warranting the mobilisation of EU cohesion policy funds. However, this Council recognition could be decoupled from decisions concerning the application of EU fiscal rules, in order to reduce the strictness of the activation mechanism.

To make this general flexibility regime more effective, the list of flexibility measures to be granted could be expanded. Apart from the four measures listed in the current Article 20, Member States affected by crises could be given more capacity to reallocate resources across funds and regions[19] or the possibility of financing new eligible measures.

[19] A 2023 survey of managing authorities shows that expanded flexibility for transfers was very appreciated during COVID-19. See Böhme et al. (2023), *The delivery system of Cohesion policy now and in future*, a study conducted for the Committee of the Regions.

4.2.1.2 Monitoring and accountability

Under Article 20 of the CPR, the Commission must keep the European Parliament and the Council informed about the application of this article. At the request of one of the two co-legislators, it may organise a 'structured dialogue' to monitor the implementation of these measures (Article 20(3)). These provisions could be maintained in a future 'general flexibility' regime. In addition, regulatory amendments should be introduced to guarantee appropriate monitoring and reporting of all mobilised expenditures, in line with the recommendations outlined in Section 4.1.

4.2.2 A thematic flexibility regime to respond to natural disasters

The second tool is a specific flexibility regime allowing Member States to rapidly reallocate cohesion resources in response to natural disasters. This is essentially what the Commission advances in its recent RESTORE proposal, presented in October 2024[20], but some elements of the proposal could be improved.

The RESTORE proposal envisages the introduction of permanent flexibility provisions to enable Member States to swiftly reallocate resources in response to natural disasters. It proposes that Member States are given the possibility to reprogramme amounts from the European Regional Development Fund (ERDF) to support the repair and reconstruction of damaged infrastructure. The European Social Fund Plus (ESF+) could be used to finance the extension of Short-Time Work (STW) schemes and access to healthcare for victims of disasters or the distribution of food and basic material assistance. All projects and measures financed in response to the disaster are granted 30 % of pre-financing and 100 % of co-financing, and can be financed retroactively.

Under the RESTORE proposal, the activation of these specific flexibility provisions is very easy. Any Member State can use them in the event of a natural disaster defined as 'severe' by the Commission (based on an objective definition included in the EUSF Regulation which takes into account the amount of estimated direct damages incurred as a percentage of GDP). But they can also use them to address other minor natural disasters insofar as these are recognised as such by a competent public authority of the Member State.

Member States can make use of these flexibilities to respond to one or successive natural disasters and mobilise up to 10 % of their total cohesion allocation.

4.2.2.1 Description of the mechanism

As natural disasters are exogenous occurrences outside the control of governments and directly affect the planning of EU cohesion policy funds, it makes sense to envisage a dedicated flexibility regime allowing Member States to quickly mobilise cohesion resources in response to natural disasters without needing Council approval. Given that such a regime would enable Member States to use their 'own' cohesion resources rather than drawing on the solidarity of other countries, it is also justifiable to broaden the scope of this regime beyond the strict definition of 'severe' disasters currently used to grant support from the EUSF.

Yet, granting Member States unilateral capacity to activate such measures carries the risk of abuse to address minor natural emergencies. A balanced approach could involve empowering the Commission to assess and determine the appropriateness of activating these measures.

The limit of 10 % of cohesion policy funds mobilised intends to preserve the long-term strategic nature of the EU cohesion policy. However, the RESTORE proposal does not include specific provisions to

[20] European Commission (2024), *RESTORE – Regional Emergency Support to Reconstruction amending Regulation (EU) 2021/1058 and Regulation (EU) 2021/1057*, COM(2024)0496, 2024/0275 (COD), Brussels, 21.10.2024.

guarantee that short-term financed actions in response to natural catastrophes are aligned with the cohesion policy´s long-term goals. The preamble of the draft regulation states that '[i]n the context of reconstruction in response to natural disasters, operations based on the "build back better" principle should be prioritised in the selection process'. It further emphasises that, when used to complement support from the EUSF, cohesion policy funds should primarily focus on enhancing resilience and risk preparedness (recital 6). Still, this principle is not translated into specific legal obligations within the main body of the draft regulation. In a future thematic flexibility regime for natural disasters, it would be advisable to condition the use of these flexibilities on strict respect for the 'build back better' principle for all financed actions and an engagement to develop a thorough climate risk assessment after the disaster and the implementation of comprehensive, long-term adaptation strategies.

Finally, as outlined in Section 4.1.1, to enhance the cost-efficiency of financed operations, it is recommended to eliminate the 100 % EU co-financing and raise the pre-financing level to 50 % for all projects and measures related to natural disaster response.

4.2.2.2 Monitoring and accountability

In line with the RESTORE proposal, a new specific objective under the ERDF Regulation could be created to track all expenditures for repair and reconstruction following natural disasters. As the ERDF finances infrastructure operations, it would be advisable to introduce specific reporting provisions similar to those in Article 20 of the CPR, such as requiring the Commission to keep the European Parliament and the Council informed about the implementation of these provisions and allowing for the possibility to request a structured dialogue to monitor the implementation of these measures.

4.2.3 National reserves to address natural disasters

The use of flexibilities could be complemented by the establishment of optional national crisis reserves. The idea of creating crisis reserves is not new. It appeared in the discussion after the 2015 refugee crisis when many managing authorities encountered difficulties in reprogramming Emergency Support Instrument (ESI) funds to assist the integration of the refugees[21]. Drawing lessons from this experience, during the debates on the post-2020 cohesion policy many stakeholders, including the European Parliament[22], called for the creation of an EU-level mechanism or reserve to provide additional funds to managing authorities for unforeseen events. Nevertheless, the idea did not make it into the Commission's proposal for the 2021-2027 cohesion policy funds. The creation of optional crisis reserves was again evoked in a 2022 joint paper adopted by 10 Member States as a possible response to the Ukraine refugee crisis[23].

As explained above, national crisis reserves can be problematic if their purpose is not clearly defined. Instead of a generic crisis reserve, which risks remaining unused or being politicised, it would make sense to offer national governments the possibility of establishing dedicated reserves to cover the potential costs of addressing natural disasters – which are expected to become more intense and frequent in the coming years as a result of climate change.

4.2.3.1 Description of the mechanism

The Common Provisions Regulation would allow all Member States to leave aside a predefined share of their national cohesion envelope to respond to natural disasters.

[21] See 'Ideas and Options for Cohesion Policy Post-2020', by Bachtler et al. (2016).

[22] European Parliament (2017), *Report on building blocks for a post-2020 EU cohesion policy*, https://www.europarl.europa.eu/doceo/document/A-8-2017-0202_EN.html

[23] See https://www.fm.gov.lv/lv/media/11208/download

This optional reserve would be activated following the same procedure as the 'thematic flexibility regime' – that is, the Member State would request its activation in the event of a natural disaster with important repercussions at the national or regional level (even without a degree of damage corresponding to a 'severe' disaster). The Commission would assess the request and determine the appropriateness of activating the reserve, on the basis of the direct damages occasioned and the extent to which the disaster disrupts the planned implementation of EU cohesion policy funds.

The use of the reserve would be governed by the same rules as the thematic flexibility regime concerning the scope of interventions, pre-financing, and adherence to the 'build back better' principle. In the middle of the programming period, Member States would have the option to transfer any unspent reserve resources to other projects, based on performance and needs criteria.

4.2.3.2 Monitoring, control and accountability

The rules on monitoring, control and accountability would be the same as those applied to the thematic flexibility regime.

4.2.4 An EU-level reserve to increase support in the event of severe crises

In addition to national crisis reserves for natural disasters, the establishment of an EU-level reserve under the cohesion policy could be considered. This reserve would offer enhanced support in the event of severe crises affecting the entire EU (such as the COVID-19 pandemic) or impacting one or various Member States.

4.2.4.1 Description of the mechanism

The Common Provisions Regulation would include an EU-level crisis reserve financed by some of the resources from the EU cohesion policy. The reserve would be managed by the Commission. It would be activated by the Commission alone, in response to severe crises impacting the entire Union (e.g., the COVID-19 pandemic) or a single Member State. This would include 'severe national disasters' as defined by the European Solidarity Fund, or other major crises impacting a Member State.

When reacting to EU-wide crises, disbursements from the EU-level reserve would be allocated according to an ad hoc distribution key, considering both the scale of the crisis and Member States' financial capacities. When responding to severe crises in the Member States, the distribution would be done following the 'first come, first served' approach (like the EU Solidarity Fund).

An EU-level reserve would be especially useful during the second half of the programming period when Member States risk having fewer available resources for re-programming and national cohesion reserves may no longer be in place. To guarantee the capacity to react to crises occurring during the last years of the programming period, the Common Provisions Regulation could impose a minimum percentage of funds left aside to be used during the last three years of the MFF.

4.2.4.2 Monitoring, control and accountability

As in the case of using the general flexibility regime, the Commission would have the obligation to keep the European Parliament and the Council informed of the use of the reserve and, at the request of one of the two co-legislators, organise a structured dialogue to monitor the deployment of the funds allocated. The necessary regulatory changes should be introduced to guarantee appropriate monitoring and reporting of all expenditures mobilised, in line with the recommendations outlined in Section 4.1.

5 REINFORCING THE EU BUDGET CAPACITY FOR CRISIS RESPONSE

This section first builds on Part 1 of the study and its conclusions regarding the SURE instrument. It explores the feasibility of making SURE a permanent mechanism to support national short-time work schemes and evaluates how it aligns with other proposals (e.g. European unemployment benefit schemes) aimed at mitigating adverse labour market impacts of crises. It then reflects on the features of other EU-level lending instruments designed to provide crisis response and looks at sensible options to incorporate SURE's purpose under an existing instrument. The reasoning is driven by considerations of effectiveness but also control and accountability, especially the extent to which new instruments could ensure effective crisis response while guaranteeing sound financial management.

The second part delves into the features of different dedicated EU budget tools and mechanisms that are used to react to emergencies, such as the Union Civil Protection Mechanism (UCPM), the EUSF, the ESI and the Flexibility Instrument. The analysis of these instruments will help us assess the various strengths and weaknesses of the repurposing of EU cohesion policy funds in response to a crisis or the creation of new EU lending capacities vis-à-vis mobilising dedicated EU crisis funds, as well as exploring the potential synergies and complementarities between 'old' and 'new' crisis instruments.

5.1 Turning SURE into a permanent instrument?

One of the key findings of Part 1 of the study is that SURE was a successful response to the COVID-19 pandemic and the lockdown imposed by governments to protect public health. The nature of the crisis, with severe restrictions on mobility, made measures aimed at mitigating labour market disruption – particularly those that maintained workers' attachment to the labour force – crucial. Although measuring the exact outcomes of SURE is still challenging today (see Part 1 of the study), there is broad consensus that the instrument was relevant and effective. This success led several commentators[24] to propose making SURE, which ended in December 2022, a permanent mechanism to be activated as needed.

The rationale behind this proposal is that having the instrument ready in advance would ensure faster and more effective response to crises with large impacts on the labour market, regardless of their nature. Furthermore, lessons learned from SURE's temporary implementation could be used to enhance the design of a permanent version. However, a more detailed analysis suggests that before making SURE permanent, three main points require careful consideration.

5.1.1 Is SURE still relevant?

The success of a temporary crisis instrument like SURE does not necessarily justify its permanent adoption. As highlighted in Part 1 of this study, some of the benefits associated with SURE might already be exhausted, and future benefits could be relatively limited. This could reduce the overall value of establishing a permanent EU instrument. A key benefit of SURE during the pandemic was that it incentivised Member States to implement STW schemes where they did not exist and to expand them where they were already in place. Given the specific nature of the COVID-19 pandemic, STW schemes were a suitable and effective response. But in a future crisis, the benefit of the EU's cheap loans could be much smaller, as all EU Member States have now experimented with STW schemes and incorporated them into their national frameworks. This shifts the main advantage of using SURE to the monetary

[24] Including one of the authors of this study, see Alcidi and Corti (2020) and (2021).

benefit of borrowing from the EU at lower interest rates than individual Member States would face on the market.

The EU was able to raise funds for SURE at very favourable terms during the pandemic, but similar conditions may be less likely in the future due to factors such as changing macroeconomic environments, evolving market conditions, and the EU's own growing borrowing needs. While some Member States might still benefit from borrowing at better rates via an EU instrument, these benefits could be relatively modest. Total estimated savings for Member States that benefited from SURE amount to around EUR 8 billion. Depending on the evolution of financial markets, this amount may represent the upper limit of the expected savings, as well as the only benefit, associated with the instrument. This leads to the question of whether such potentially limited benefits justify the complexity of setting up and managing a new permanent EU instrument. Even though the SURE design was relatively simple, it required significant coordination and negotiations among the Member States, along with the European Commission's commitment to raise and manage the funds.

5.1.2 Legal feasibility

These last considerations point to a second issue. Making SURE permanent would require identifying the legal foundations for it, hence its **legal feasibility**. The full analysis of the legal feasibility of a permanent SURE goes beyond the scope of this study; however, a few considerations suggest that if the political will exists, legal feasibility would not be a major obstacle to turning SURE into a permanent instrument. Three realistic options could be explored.

5.1.2.1 A permanent SURE with the same legal foundations: Article 122(2)

From a legal standpoint, SURE is anchored in Article 122(2) of the TFEU, which empowers the EU to provide financial assistance to Member States facing exceptional circumstances beyond their control. For SURE, these conditions are specified in the legal provisions as being related to COVID-19. Furthermore, recital 15 and Article 12(3)(4) of the SURE Regulation incorporate a 'sunset clause', limiting the facility's availability to 31 December 2022, with the option for extensions in six-month increments.

To transform SURE into a permanent mechanism, the regulation would need to be revised to broaden its legal provisions to address crises beyond COVID-19 and to remove the sunset clause. Moreover, Member States' guarantees should be readily accessible without requiring ad hoc approval, which may delay or even block the process. One could imagine EU Member States formalising their commitment through an intergovernmental agreement outside the EU legal framework, similar to the European Stability Mechanism (ESM). This would de facto place SURE outside the EU *acquis*. An alternative option could be to follow the approach proposed by the Commission to transform the ESM into a European Monetary Fund (EMF). The proposal puts forward the possibility of integrating it into the EU legal framework, without Treaty change, utilising Article 352 of the TFEU. Such an option would be particularly relevant for the European Parliament, as the new instrument would become accountable to both the European Parliament and the Council.

5.1.2.2 A permanent SURE with greater emphasis on the social dimension[25]

An alternative option would be to reframe the legal foundation of SURE to emphasise its social dimension, basing it on Article 175(3) TFEU[26]. This approach would allow SURE to be activated upon

[25] Ibid.

[26] The article provides a legal basis for the EU to take specific actions when existing policies do not fully address the goals of reducing disparities in development across EU regions and promoting economic, social, and territorial cohesion. Specifically, if the EU's primary instruments (such as the structural funds) are insufficient to achieve these cohesion objectives, the Council can adopt other specific actions proposed by the Commission.

request by a Member State experiencing an exceptional crisis that significantly increases expenditures for STW schemes. A Member State in need would submit a request to the Commission, which would then propose a financial assistance agreement to be formally approved by the Council with a qualified majority vote. In this framework, SURE would function as a special instrument outside the MFF ceilings (headroom). This setup would align with other existing instruments under Article 175(3) TFEU, such as the EUSF and the European Globalisation Adjustment Fund. These are special instruments outside the MFF, designed to provide grants to Member States in exceptional circumstances like natural disasters or large layoffs. While SURE would continue offering loans, rather than grants, the EU budget would provide a guarantee for the loans.

In this context, SURE could also be compared with the European Investment Stabilisation Function (EISF), which the Juncker Commission proposed in 2018, though never adopted. Similar to SURE, the EISF envisaged the Commission offering back-to-back loans to Member States facing large asymmetric shocks beyond their ability to manage alone. The design of EISF, and potentially SURE, would imply that they operate within the 'margin available under the own resources ceiling for payment appropriations' (Council Regulation (EU) No 407/2010).

5.1.2.3 Incorporate SURE into the European Financial Stabilisation Mechanism

A third option is inspired by the European Financial Stabilisation Mechanism (EFSM). Similar to SURE, the EFSM is grounded on Article 122(2) of the TFEU and is a macroeconomic instrument which issues loans to Member States facing severe difficulties caused by exceptional occurrences.

In both cases, the objective of the instrument is to offer support to Member States that are facing exceptional circumstances outside their control and which have to deal with high public expenditure. The EFSM has a maximum lending capacity of EUR 60 billion (in 2010) and its loans are guaranteed by the EU budget (not national guarantees). A permanent SURE could follow the same approach; the main difference would be the definition of scope and aim, i.e. support for national STW schemes.

It should be noted that while the EFSM remains in place, its role has been largely diminished by the establishment of the ESM. Euro area Member States facing severe financial pressures should resort to the ESM, which has a much greater lending capacity, about 10 times bigger than the EFSM, and a larger set of available instruments to address macroeconomic crises.

Given the concerns raised above about the economic relevance of establishing a permanent SURE only to support STW schemes, a natural question is whether instead of creating another instrument, the scope of the EFSM could be extended to embed SURE and expand its mandate to mitigate the impact of macroeconomic shocks on labour markets. To better answer this question, the next section (5.2) offers a detailed overview of the features of different EU lending instruments, covering design, legal foundations and budgetary considerations.

Overall, as mentioned above, the legal feasibility is unlikely to be a key hurdle for a permanent SURE. Instead, it will be important to consider other factors – such as its economic relevance, the desirability of an additional EU permanent instrument adding to the EU galaxy, and the potential EU budgetary implications of the new instrument. Concerning the latter point, establishing SURE as a permanent mechanism could introduce greater liability risks, necessitating measures to protect the EU's financial interest.

5.1.3 EU budget implications

Based on its current design, the **EU budgetary implications** of SURE are negligible. The risk for the EU budget associated with the loans is extremely low, as in the unlikely event that one of the borrowing Member States is unable to repay the loan, national guarantees from Member States would be called

first. As described in Part 1 of the study, guarantees required from Member States amounted to EUR 25 billion, i.e. 25 % of the maximum amount of the instrument, which is usually considered a prudent approach for lending to sovereigns. Given the limit of 10 % for the maximum amount of borrowings by the EU that can fall due in any one year (i.e. EUR 10 billion), the amount implies that the guarantees are set to cover 2.5 years of EU exposure. In other words, it is extremely unlikely that the EU budget would be called in. A consequence of it is that from an EU budgetary perspective, the main point of concern about SURE is the protection of the EU financial interest, i.e. money lent by the EU is used properly, free from fraud, corruption, mismanagement, or any illegal activities.

If the transformation of SURE into a permanent instrument implies, as hinted above, a different lending scheme, then the EU budgetary implications would be greater, yet limited. Section 5.2 describes the risks for the EU budget associated with different EU instruments. Loans to EU Member States backed by the EU budget are usually considered low-risk implicit liabilities.

5.1.4 Monitoring and reporting considerations

As discussed in Part 1 of this study, SURE had a relatively light monitoring and reporting system due to its limited impact on the EU budget and the associated risks being borne by national budgets. Formal reporting obligations were not imposed, but over time, the Commission's reporting requests increased as the quality and comprehensiveness of Member States' submissions varied significantly and, in some cases, were notably poor. National information systems were expected to play a central role in tracking the uptake of schemes, identifying beneficiaries, monitoring the duration of support, and assessing the outcomes linked to SURE loans. However, the novelty of STW schemes, the complexity of monitoring a large set of beneficiaries, and administrative capacity limitations caused significant challenges in some countries, especially during the initial phase. If SURE were to become a permanent instrument, many of these issues would likely be mitigated through the learning process during COVID-19 and the refinement of national systems.

Nevertheless, if a permanent SURE, no matter what the legal foundations are, were to make the EU budget the primary guarantor for the loans, the monitoring and reporting systems would need to be strengthened. A system similar to those used for the EFSM or Balance of Payments Assistance – which offer Member States loans backed by the EU budget – could be considered (details in Table 1 and the next section). Under such a system:

(i) the collection of data would remain the responsibility of national systems;

(ii) on-site evaluations by Commission staff in beneficiary countries could be introduced to ensure compliance and provide oversight;

(iii) reporting should be mandatory, conducted regularly (e.g. quarterly), and focused on pre-identified areas of interest (e.g. sectors, beneficiaries and employment status);

(iv) a standardised set of indicators, potentially in the form of a scoreboard similar to that used for the RRF, could enhance comparability and accountability across Member States (see Table 1).

In this framework, the European Parliament does not have the power to approve or reject financial support. However, the Commission needs to report to the Parliament on the use of funds and the ongoing implementation of financial assistance (to ensure accountability). Similar to the EFSM assistance, this would include providing updates after concluding a Memorandum of Understanding (MoU) with a beneficiary Member State and subsequently on an ongoing basis. These updates provided every six months (following the reviews) until the end of the programme, would focus on developments in the economic policy conditions, if any, linked to the assistance and the use of the funds.

5.1.5 EU job retention schemes vs unemployment benefit schemes

When thinking about the future of SURE, an important question is how this relates to other potential instruments to mitigate the impact of a shock on the labour market. The question of an EU crisis response tool to cushion the impact of a labour market shock was not new at the time the COVID-19 pandemic broke out. In the aftermath of the financial crisis, a large academic and political debate developed around the idea of a common European unemployment benefit scheme[27]. For both political and technical reasons (there is a high degree of complexity around the 27 national unemployment insurance schemes) the project never saw the light and the debate gradually faded away. Of the many options that have been explored over time, only one emerged as reasonably feasible, a European Reinsurance of National Unemployment Benefit Schemes[28]. The concrete idea, originally put forward by Beblavi, Maselli and Gros, in 2015, was put back on the table by the European Commission in early 2020, in its new work programme under the third priority – 'An Economy that Works for People' – when it announced its intention to propose a European Unemployment Reinsurance Scheme (EURS).

Yet, the outbreak of the pandemic interrupted the process and it was never resumed. In response to the pandemic, instead of going ahead with the EURS, the option decided upon was to set up a new instrument – SURE. Its purpose, as illustrated in Part 1 of this report, was not to offer EU funds to governments under financial strain to cover higher social security driven by higher unemployment, but rather to incentivise Member States to set up a scheme to prevent an increase in unemployment and maintain labour market attachment.

From the perspective of the labour market, the two instruments are not alternatives. They have different aims and perform different functions. In this sense, the debate about a permanent SURE should be kept separate and not interfere with the future of a European unemployment benefit scheme.

Furthermore, it should also be noted that the proposal on the EURS would in principle have a different funding scheme from SURE and other EU instruments. Consistent with the qualification of a reinsurance mechanism, it should assume that national schemes contribute to the reinsurance fund in good times and can access it in bad times, when in need, which should occur only during major events when national systems are unable to fully perform their shock absorption function. Under this assumption, the EU dimension would be limited to the set-up and management of the fund, rather than the provision of funds.

5.2 Comparing different EU lending instruments from the perspective of control and accountability

In the previous section, the considerations about if and how to transform SURE into a permanent instrument very often rely on comparison with existing permanent instruments, notably but not only the EFSM. This section looks at the constellation of existing EU lending instruments used to respond to crises in order to draw insights on whether and how a permanent SURE should be designed, keeping in mind an EU budget perspective.

As documented in Begg et al. (2021), borrowing and lending operations supported by the EU budget have been expanding over time, mostly driven by the increased demand to respond to crises. The

[27] A vast stream of academic literature exists around this topic but the first and most comprehensive study was requested by the European Commission, following a request by the European Parliament in 2015, to explore the feasibility and added value of a European unemployment benefit scheme (EUBS). The study explores the design of 18 EUBS variants, the respective added value and potential implementation, including the legal feasibility and compatibility with national legislation.

[28] In fact, the first idea can already be found in the 1970s at the time the debate about a Monetary Union was launched and the idea of a fiscal capacity, for stabilisation and redistribution purposes, was explored.

expansion was also made easier by the very low cost of borrowing for the EU due to the combination of the very favourable market conditions (ultra-low interest rates) and the fact that the implicit guarantees of the 27 Member States confer on the EU the status of a low-risk borrower, typically with a AAA rating. Such conditions de facto reduced the liabilities and the risk weighting on the EU budget associated with borrowing on financial markets to support Member States in their response to crises. Yet different instruments carry different risks and changing market conditions can amplify them in a rather sudden way.

Following Begg et al. (2021), three main categories of lending and borrowing operations can be identified depending on their implications for the EU budget, in terms of liabilities and risks:

- borrowing and lending operations on behalf of EU Member States, guaranteed by the EU budget margin between the ceiling for payments and the own resources ceiling (e.g. Balance-of-Payments Facility and the EFSM);
- borrowing and lending operations where the risks are largely covered by actual funds in the budget (e.g. the MFA and Ukraine Facility, typically support offered to non-EU countries);
- borrowing to be repaid through the EU's own resources (e.g. NGEU disbursements for non-repayable forms of support grants).

Table 2 presents an overview of the main EU lending instruments (for this study we are not interested in the borrowing dimension) usable or used in response to a crisis and a summary of their main features, including those related to reporting and control. These are macroeconomic instruments to respond to large-scale crises. In the table, they are presented from left to right, following a growing risk for the EU budget (increasing implicit liabilities).

SURE has the lowest level of risk for the EU budget, while the instrument carrying the highest is **macro-financial assistance** to support non-EU countries. While the latter instrument is certainly not a relevant benchmark for a permanent SURE, it clearly illustrates that instruments with higher budget risks typically carry conditionalities as well as stricter monitoring and reporting systems and more sophisticated procedures for audit and control.

An element that emerges from the table is that the **RRF** is a special instrument. It is temporary, exceptional in size compared with other instruments, and it has a novel approach to budgeting and the disbursement of funds, which is based on performance, as well as reporting.

By contrast, the **EFSM** and the **Balance of Payments Assistance Facility** are somewhat in the middle in terms of risk for the EU budget as well as monitoring and reporting requirements and they offer interesting insights. Their structure is very similar. If we set aside the scope, EU vs EU non-euro area Member States, for the EFSM and Balance of Payments Facility respectively, they have a rather similar purpose, though, for the Balance of Payments Facility, the source of financial instability must be related to the external sector. They also have a similar financial governance framework, as well as monitoring, reporting and audit and control systems.

They, in particular the EFSM, represent an interesting benchmark for the design of a permanent SURE in which the EU budget would be the main guarantor of the loans. Beyond that, building on the above analysis regarding the legal feasibility of establishing a permanent SURE, to streamline instruments and avoid redundancy, **SURE could be merged with the EFSM**[29]. **The merged instrument would serve as a unified EU macroeconomic crisis response tool, applicable to all EU countries.** Its purpose

[29] Similar reasoning applies to the Balance of Payments Facility, but this goes beyond the scope of this paper.

would be to support Member States facing severe financial difficulties, including those associated with sustained increases in public expenditure for STW schemes or other labour market support measures. This latter idea of extending the scope of instruments for macroeconomic stability to large labour market shocks is in line with the European Parliament draft amendments to the European Commission's proposal for transforming the ESM into an EMF under EU law. Parliament's amendments explore ampler funding activities of the ESM, including support for unemployment benefit systems.

It is worth recalling that the EFSM is a macroeconomic stabilisation tool designed to address large-scale shocks. For labour market shocks to be relevant they should trigger an increase in public expenditure, for instance through large STW schemes, that could jeopardise the financial stability of the country concerned. This is quite different from the activation of the EFS+ in response to natural disasters described above, which could also support STW schemes. Interventions under the ESF+ typically address more localised or sector-specific disruptions that do not necessarily threaten a country's financial stability. However, in the rare case of national catastrophes requiring simultaneous support from both mechanisms, it is essential to ensure that funding is not duplicated across these tools, maintaining coherence and effective resource allocation.

Importantly, incorporating SURE under the EFSM would imply a major change. **Under the EFSM the decision to grant a loan is conditional** (see Table 2). The Member State requesting the financial assistance needs to prepare a full adjustment programme, which identifies the economic policy conditions (e.g. reforms and budgetary adjustments) to access the loans, and a MoU defining the adjustment programme needs to be signed by the requesting country and the Commission. If the beneficiary fails to comply with the conditions, disbursements can be delayed or suspended and the Commission may require additional measures or renegotiate the MoU.

SURE did not require compliance with any conditionality – there was only an eligibility criterion. According to some commentators, **this was one of the reasons for its success in terms of the uptake of loans**. This was often contrasted with the lack of success of the ESM COVID-19 support. As described in Part 1 of the study, during COVID-19, the ESM designed a Pandemic Crisis Support facility to help ESM members with the financing of healthcare costs related to the COVID-19 crisis. This support was available at very low interest rates, yet no country requested a loan. Some commentators argue that this was due to the 'stigma' effect associated with the adjustment programme, which is typically attached to ESM interventions.

While the **EFSM** requires conditionality and an adjustment programme, in practice it was only used during the euro area crisis. It provided limited financial assistance to Ireland and Portugal when they faced severe financial difficulties in 2010-2011, alongside IMF loans, until the European Financial Stability Facility (which transformed into the ESM) became active. Because of such limited intervention, de facto diluted by those of other bigger actors, its **reputation is much more neutral**. Yet, it must be recognised that macroeconomic conditionality is often perceived as a limitation to national sovereignty and can work as an obstacle to uptake.

Overall, while there are compelling arguments from both economic and EU budgetary perspectives to expand the scope of the EFSM to address large labour market shocks – a role envisaged for a permanent SURE – **conditionality presents a significant trade-off**. The purpose of conditionality is to prevent excessive reliance on low-cost EU loans, which create EU liabilities, but it should not create barriers for countries genuinely in need of support.

In the case of SURE, eligibility criteria were deemed sufficient due to the scale and unique nature of the labour market shock induced by COVID-19. However, for a permanent instrument, eligibility alone may not be sufficient, as the types of shocks and appropriate response measures are harder to predict.

Therefore, **while conditionality would likely remain necessary, efforts should focus on exploring ways to soften it, ensuring that support remains accessible without undermining fiscal discipline.**

A last point of consideration relates to the lesson learned from the **RRF.** While it is a temporary instrument created in response to the COVID-19 crisis, it is **meant to increase long-term resilience instead of immediate crisis relief,** unlike other macroeconomic instruments in Table 2. It introduced a new budgeting approach that ties the allocation of public funds to the achievement of specific, measurable objectives in terms of investments and reforms (defined through targets and milestones).

As the **performance-based disbursement approach**[30] is likely to become increasingly used in the allocation of EU public funds, one open question is whether this approach is suitable for EU lending instruments providing assistance in times of crisis. As discussed in section 4.1.1., adopting this approach **in a crisis, where uncertainty is pervasive and pressure to intervene high, is likely to be very challenging**. In cases of severe financial stress, where circumstances are largely beyond the control of the requesting Member States, such an approach appears unfeasible.

Furthermore, financial resources are typically needed urgently and often on a rolling basis, for instance, to ensure the continuity of public administration and provision of services. Strictly conditioning disbursements to the achievement of targets could lead to multiple interruptions in the assistance, reducing its value. The conditionality that is applied to instruments like the EFSM still involves a contractual commitment by the beneficiary government to implement specific policy measures and progress towards predefined objectives, but these are typically defined in broad terms (like restoring control of public finances), leaving ample discretion to interpret and judge the efforts undertaken by the beneficiary country. This approach ensures that failing to meet a specific target does not undermine the overarching purpose of the financial assistance.

[30] See Begg et al. (2024) for a full overview of principles and implementation.

Table 2: Overview of the EU's lending instruments

	SURE	European Financial Stabilisation Mechanism (EFSM)[31]	Balance of Payments (BoP) Assistance Facility	Recovery and Resilience Facility (RRF) Loans	Macro-financial Assistance (MFA)
Description of the instrument	EU loans to Member States to support short-time work schemes and similar measures. Max. lending capacity EUR 100 billion	EU loans to Member States to provide financial assistance to countries in severe financial difficulties Max. lending capacity EUR 60 billion (in 2010)	EU loans to non-euro area Member States suffering from balance-of-payments difficulties Max. lending capacity EUR 50 billion (Loans are to be limited to EUR 12 billion)	EU loans to Member States to finance their National Recovery and Resilience Plans (NRRPs) Max lending capacity: EUR 291 billion	EU loans to non-EU 'partner' countries (candidate and potential candidate countries, countries bordering the EU covered by the European Neighbourhood Policy and other third countries) experiencing financial difficulties. No predetermined maximum amount; the budget is determined on 'ad hoc' basis
Risks for the EU budget	Very low: Member States have high credit ratings. The loans are covered by Member State guarantees. The EU budget only provides a backup guarantee	Low: Member States have high credit ratings. The loans are guaranteed by the EU budget headroom[32]	Low: Member States have high credit ratings. The loans are guaranteed by the EU budget headroom	Low: Member States have high credit ratings. The loans are guaranteed by the EU budget headroom	Medium: EU loans to non-EU countries are guaranteed by a 9 % provision[33] plus the EU budget headroom but some non-EU countries have moderate to low credit ratings.
Activation	Request from the potential beneficiary; decision adopted by the Council on a proposal from the Commission	Request from the potential beneficiary; decision adopted by the Council, on a proposal from the Commission	Request from the potential beneficiary; decision adopted by the Council on a proposal from the Commission	Request from the potential beneficiary; decision adopted by the Council on a proposal from the Commission	Co-decision procedure; for each programme, the Parliament and the Council co-decide the amount, conditions and duration

[31] As explained above, euro area countries in need of financial assistance due to severe financial difficulties are expected to turn to the ESM. The EFSM, however, remains in place and can be used if the need arises, in particular for EU Member States that are non-euro area members. For more details, see EFSM here.

[32] The headroom is the difference between the Own Resources ceiling (i.e. the maximum amount of resources that the Commission can ask Member States to contribute in a given year) and the funds needed to cover the planned expenditures in the EU budget

[33] Except EU loans to Ukraine, which have been exempted from the 9% provisioning rule.

	SURE	European Financial Stabilisation Mechanism (EFSM)[31]	Balance of Payments (BoP) Assistance Facility	Recovery and Resilience Facility (RRF) Loans	Macro-financial Assistance (MFA)
Conditionality	No conditionality attached to EU payments. Eligibility: Member States should finance short-time work schemes (and ancillary health expenditure)	Disbursement of EU payments conditional on the achievement of some economic policy conditions (defined by the Commission in consultation with the ECB) contained in the Memorandum of Understanding signed with the country (MoU); if the beneficiary fails to comply with the conditions, further disbursements can be delayed or suspended and the Commission may require additional measures or renegotiate the MoU.	Disbursement of EU payments conditional on the implementation of a policy plan; if the beneficiary fails to implement the agreed policies, further disbursements can be delayed or suspended and the Commission may require additional measures or renegotiate the MoU.	Disbursement of EU payments conditional on achievement of detailed milestones and targets; the European Commission evaluates the reports to determine whether milestones and targets are achieved and assesses whether disbursements should be made (funds are released in tranches)	Pre-conditions: respect for human rights, democratic mechanisms, and the rule of law; the existence of an IMF non-precautionary credit arrangement & satisfactory track record of IMF programme; Disbursement of EU payments in tranches tied to the fulfilment of conditions
Monitoring mechanism	The European Commission monitors the implementation of SURE loans by (i) analysing Member State reports to assess whether the funds are being used according to the conditions; (ii) submitting biennial reports to the Council on the implementation of SURE, including details on Member States' use of loans, effectiveness, and potential issues	The European Commission oversees the implementation of the assistance programme and works closely with the ECB and, if relevant, the IMF; monitoring includes: (i) regular reviews conducted quarterly to assess progress on policy implementation and economic performance; (ii) mission visits by Commission staff; (iii) regular reporting by the Commission to the Council (ECOFIN) on the progress and results of the programme	The European Commission, in cooperation with the Economic and Financial Committee and the ECB, monitors compliance with the conditions; monitoring includes: (i) regular reviews typically conducted quarterly; (ii) mission visits, and (iii) Commission regular reporting to the Council (ECOFIN) about the implementation of the programme	The European Commission monitors the implementation and assesses how reforms and investments contribute to achieving the six RRF policy pillars; the Commission defines a scoreboard to monitor progress, the common indicators, and the methodology for reporting social expenditure	The European Commission monitors compliance through regular reviews and consultation missions, in coordination with the IMF, when applicable; the Commission reports to the European Parliament and the Council on the implementation and effectiveness of MFA programmes
Reporting obligations	There is no formal obligation on the beneficiaries; however, the European	The beneficiary must regularly report to the European Commission on (i)	The beneficiary must regularly report to the European Commission on	Reporting is defined under the integrated financial and accountability reporting of	Regular report on the implementation of the economic policy conditions

	SURE	European Financial Stabilisation Mechanism (EFSM)[31]	Balance of Payments (BoP) Assistance Facility	Recovery and Resilience Facility (RRF) Loans	Macro-financial Assistance (MFA)
	Commission has progressively asked Member States to submit periodic reports covering: (i) use of loan proceeds, i.e. the measures financed for STW schemes for employees, similar job protection measures for self-employed individuals, health-related expenditures, if applicable; (ii) uptake of schemes, (i.e. the number of workers and businesses and information on the duration and intensity of the support provided; (iii) financial impact (i.e. alleviation of fiscal pressure)	the economic and financial situation (e.g. key macroeconomic indicators); (ii) policy implementation progress on meeting the conditionality agreed in the MoU (e.g. fiscal consolidation measures to reduce deficits and reforms); (iii) use of EFSM funds (e.g. budgetary expenditures and compliance with agreed spending priorities including compliance with sound financial management principles)	(i) economic and financial developments; (ii) implementation of the policy measures (e.g. progress on implementing the policy conditionality outlined in the MoU (e.g. structural reforms, fiscal consolidation measures); (iii) use of EU assistance (including compliance with sound financial management principles)	Article 247 of the Financial Regulation and in the Annual Management and Performance Report; countries benefiting from RRF loans must report biannually (within the European Semester) on progress towards milestones and targets, how funds are allocated and used, compliance with horizontal principles (e.g. do no significant harm and gender equality and social inclusion), and measures for fraud prevention	tied to the MFA; countries must submit progress reports to the EC detailing (i) the implementation of the reforms contained in the MoU; (ii) the macroeconomic and fiscal situation; (iii) information on the use of the proceeds; and (iv) compliance with audit and control (i.e. adherence to financial controls and risk management practices)
Audit and control	Standard provisions regarding controls and audits applied to EU loans[34]	Standard provisions regarding controls and audits applied to EU loans	Standard provisions regarding controls and audits applied to EU loans	Member States must provide updates on their internal control systems to ensure sound financial management and prevent fraud, corruption, and misuse of funds; a request for payments must include a summary of the audits conducted; Member States must ensure access to standardised categories of data	The ECA and Commission may conduct audits and reviews, in addition to periodic evaluations
Evaluations	Not compulsory although SURE evaluation is in progress	Compulsory	Compulsory	Compulsory	Compulsory

[34] The loan agreement contains provisions regarding controls and audits (Article 220(5) of Regulation (EU, Euratom) 2018/1046). The ECA, OLAF and European Commission have the right to carry out financial controls or audits and send officials or duly authorised representatives to conduct any technical or financial controls or audits.

5.3 Beyond lending: other EU budget instruments to address crises

Apart from the EU loan-based schemes discussed in Section 5.2, the EU has various other dedicated tools and mechanisms to respond to emergencies and unexpected events. Table 3 below offers an overview of the main mechanisms and their key features. The most relevant ones for EU Member States are the UCPM, the EUSF, the ESI and the EU Flexibility Instrument.

The Union Civil Protection Mechanism (**UCPM)** is a mechanism that provides a framework for voluntary coordination among EU Member States and associated countries to react to natural and man-made disasters (i.e. major fires, floods or earthquakes but also wars or humanitarian crises). It was created in 2001 and, in 2019, it was upgraded with the creation of RescEU, an EU-financed reserve that can be used to jointly purchase emergency supplies and equipment in case national capacities are not sufficient. The UCPM is regularly used. Since 2001, it has been activated over 700 times. In 2023 alone, it was activated 66 times to respond to the war in Ukraine, wildfires in Europe, and the earthquake in Syria and Türkiye. However, it involves very small amounts of EU funds. The budget for UCPM/RescEU is EUR 3.3 billion for the whole MFF (of which EUR 2 billion comes from the NGEU).

The EU Solidarity Fund (**EUSF)** is an EU-level fund that provides financial support to Member States and candidate countries affected by severe natural disasters. It can be activated in response to major national or regional disasters and, since 2020, major health emergencies. The EUSF support is granted after a request by an affected country. Financial aid is awarded based on how wealthy the affected state or region is and the amount of total direct damage suffered. The EUSF was created in 2002 and is used with some regularity. Between 2002 and the end of 2022, it was mobilised 127 times, providing over EUR 8.2 billion in financial assistance. When the 2021-2027 MFF was adopted, the EUSF was granted an annual budget of EUR 0.6 billion. In 2024, the mid-term MFF review increased its budget to EUR 1.016 billion.

It is worth noting that, from a budgetary point of view, the EUSF is a special instrument above the MFF ceilings[35]. As with all special instruments, the activation of the EUSF needs the agreement of the European Parliament and Council. This usually implies a longer delay in the process. Hence, while the crisis response dimension of the instrument is clear, it is not designed for immediate response.

The length of time required to mobilise funds is one of the most criticised aspects of the EUSF, as highlighted in its 2019 *ex-post* evaluation[36]. The evaluation noted that, despite the introduction of advance payments to provide partial aid before formal approval, the full disbursement of funds typically takes around a year following a disaster. The delay in response has not been reduced over time. For example, in September 2024, the Council approved EUR 1.28 billion in support for Italy, Slovenia, Greece, and France to address the consequences of floods that occurred between May and November 2023.[37]

The Emergency Support Instrument (**ESI)** is an EU-level instrument that enables the mobilisation of EU budget resources to provide emergency support in response to large and exceptional circumstances affecting one or various EU Member States and where no other EU instrument available is sufficient. It

[35] While the EUSF had always been a standalone special instrument, in 2020, the MFF regulation merged the Solidarity Fund with another special instrument called the 'Emergency Aid Reserve' (EAR), which was designed mostly to finance humanitarian, civilian crisis management and protection operations in non-EU countries. The new special reserve was called the 'Solidarity and Emergency Aid Reserve'. However, in the 2024 mid-term MFF revision, the Council and the European Parliament agreed to separate these two instruments again. There is now a 'European Solidarity Reserve', covering the amounts mobilised through the EU Solidarity Fund, and an 'Emergency Aid Reserve'.

[36] https://ec.europa.eu/regional_policy/sources/evaluation/eusf_2002_2016/eusf_2002_2016_swd_en.pdf

[37] It is also worth noting that countries affected could also access the agricultural reserve of at least EUR 450 million per year under the CAP for the period 2023-2027.

does not have a specific EU budget envelope; it is activated on an ad hoc basis through a Council regulation that fixes the EU budget funds to be used to address a specific emergency situation. Unlike the EUSF, the ESI is intended to support coordinated or joint action rather than reimbursing Member States' individually incurred expenses. It works in complementarity with the UCPM, stepping in when the latter proves to be insufficient.

The ESI instrument was created and activated for the first time in 2016 to support Greece in managing the influx of Syrian refugees. Between 2016 and 2019, it funded 29 projects in Greece, for a total of EUR 643.6 million. In 2020, it was again activated to respond to the COVID-19 crisis, with a dedicated budget of EUR 2.7 billion. From April 2020 to January 2022, it was used to finance the transport of medical items and COVID-19 vaccination-related equipment to the EU from third countries and within the EU, the transfer of patients, and the transport of medical personnel, teams and operational support for mobile medical-response capacities.

The **EU Flexibility Instrument** is a ‘special instrument’ placed over and above the MFF ceilings that may be mobilised for financing any unforeseen expenditure which cannot be financed within the MFF ceilings. It is not an emergency-specific tool but in the past, it has been largely activated in response to crises. However, it has a small budget (EUR 0.9 billion per year in 2021-2027). In 2015 and 2016, it was extensively mobilised to address the Syrian refugee crisis, up to the point that available funds were fully used by the end of 2016.

The **Health Emergency and Preparedness Response Authority (HERA)**, the new authority the EU established after the COVID-19 pandemic, seeks to ensure a solid EU response to new cross-border health emergencies. It works through two operating modes. In ‘normal’ times, HERA coordinates with Member States to analyse, identify, and prioritise possible health threats. In the event of cross-border health emergencies, HERA has the capacity to act as a central body for the procurement, purchase and manufacturing of crisis-relevant medical countermeasures. It can also work in cooperation with the UCPM to ensure an appropriate stockpiling and deployment of critical medical countermeasures across the EU. During the crisis phase, HERA carries out targeted response actions defined in the EU’s Emergency Framework Regulation. This framework gives it the authority to act as a central purchasing body for medical countermeasures, and to activate emergency measures for bolstering research, funding, and manufacturing capacity.

Strengths and weaknesses

Each of these instruments has its strengths and weaknesses. The UCPM, the ESI and HERA are largely complementary. They provide support to joint or coordinated actions that have clear EU added value and would not have taken place in the absence of EU support. They can respond quickly and proactively, mobilising resources as a crisis unfolds. The EUSF, by contrast, is not a rapid-response instrument. The support usually arrives much later. It does not finance EU joint actions but reimburses the expenditures incurred by national authorities affected by natural disasters.

The main limitation of all these instruments is their size. Due to their limited scale, these instruments cannot provide a commensurate response to large-scale crises such as COVID-19. In case of big shocks, there is a need to rapidly increase the EU´s financial capacity. This can only be done through borrowing and lending. However, small EU emergency instruments can play a valuable complementary role in the response to large shocks. For example, the EU’s joint COVID-19 vaccine strategy was funded by EUR 2.15 billion from the ESI instrument, supplemented by contributions from national governments.

Complementarity

EU emergency instruments could also work in tandem with the four options envisaged for using EU cohesion policy funds in response to crises.

First, flexibilities and national reserves would serve to bolster national-level or regional-level emergency programmes. In this respect, they would not imply any act of cross-country solidarity. They would therefore have a different scope of action than EU emergency instruments such as the UCPM or ESI, which finance and organise short-term cross-country solidarity amid national emergencies.

Second, the use of an EU-level cohesion reserve would work in complementarity with the EUSF. The cohesion reserve would have a broader scope of action than the EUSF, covering both man-made and natural 'severe' disasters. Additionally, for natural disasters already covered by the EUSF, the cohesion reserve would provide supplementary support, enhancing the total EU funding available. Crucially, it would also enable much faster financial assistance to affected Member States, ensuring more timely relief.

Table 3: Other EU budgetary tools to respond to crises

	Union Civil Protection Mechanism (UCPM)	EU Solidarity Fund (EUSF)	Emergency Support Instrument (ESI)	Flexibility Instrument	Health Emergency and Preparedness Response Authority (HERA)
Description	EU framework for coordinating action among EU Member States and associated countries in response to natural and man-made disasters; **Emergency Response Coordination Centre (ERCC):** operational hub for the UCPM, facilitating the coordination of relief efforts, information sharing, and the mobilisation of resources; **RescEU:** an EU reserve to finance emergency resources (e.g. firefighting planes, medical equipment) that can be deployed rapidly across Europe when national capacities are overwhelmed	EU fund that can be mobilised to provide support to a Member State or accession country affected by severe natural disasters or a major public health emergency; it reimburses national expenditures for emergency support and infrastructure repair actions	EU instrument which enables mobilisation of the EU budget on an ad hoc basis to provide emergency support in response to large and exceptional circumstances affecting one or various EU Member States where no other EU instrument available is sufficient; it finances joint or coordinated actions rather than reimbursing Member States´ emergency expenditures (i.e. transport of medical items across countries, transfer of patients during COVID-19)	EU fund that can be mobilised to finance any specific unforeseen expenditure that cannot be financed within the limits of the ceilings available for one or more other headings	EU flexible structure that aims to strengthen the EU's preparedness and response to cross-border health emergencies, such as future pandemics or bioterrorism threats; in the event of cross-border health emergencies, HERA has the authority to act as a central body for the procurement, purchase and manufacturing of crisis-relevant medical countermeasures
Activation mechanism	Natural and man-made disasters affecting EU or non-EU countries	Major natural disasters or public health emergencies affecting EU Member States and accession countries	Large and exceptional circumstances affecting one or various EU Member States	All types of unforeseen expenditures (crisis or non-crisis-related)	Cross-border health emergencies
Size of the instrument	**EUR 3.3 billion for 2021-2027** (EUR 1.3 billion from the MFF and EUR 2 billion from NGEU)	**EUR 1.016 billion per year**; amounts not used can be used up to year N+1; the possibility to frontload up to EUR 400 million from N+1 in exceptional circumstances	Ad hoc mobilisation of EU funds	**EUR 0.9 billion per year**, with the possibility to use the unused amounts up to year N+2	HERA has a budget of approximately EUR 1.2 million **earmarked under RescEU for the period 2022-2027**

	Union Civil Protection Mechanism (UCPM)	EU Solidarity Fund (EUSF)	Emergency Support Instrument (ESI)	Flexibility Instrument	Health Emergency and Preparedness Response Authority (HERA)
Advantages	Swift response, provision of tangible support (in-kind support), coordinated at the EU level	Provides direct support to Member States, and can be used in response to regional disasters	It allows the quick set-up of a joint EU response when other emergency instruments prove insufficient	Extremely flexible and can be used for any type of unexpected expenditure need	Strong and clear legal basis for the HERA board to act as central authority to purchase and finance crisis-relevant equipment and actions
Weaknesses	Extremely small budget; its effectiveness relies on voluntary coordination between Member States	Does not provide a rapid response to an emergency; EU support comes after an application from the affected country; needs are assessed by the Commission and support is approved by the European Parliament and the Council; the process can take several months	No fixed EU budget; its mobilisation depends on the existence of available funds in the MFF; activation requires Council approval; this is possible for large-scale crises that affect multiple Member States but more difficult for other crises	Very limited budget to cover a wide range of unexpected expenditures	Very limited budget; relatively new (created in 2021) and still developing capabilities

6 CONCLUSIONS AND SUMMARY OF POLICY RECOMMENDATIONS

Since COVID-19, the EU has relied on temporary, ad hoc mechanisms to address the consequences of evolving crises. Looking forward, several factors – most notably the growing intensity of climate-related disasters and a more volatile and polarised geopolitical landscape –heighten the chances of new and unforeseen shocks and emergencies that will require a budgetary response from the EU. Against this background, the EU must enhance its crisis response capacity on a permanent basis. The Commission's new RESTORE proposal exemplifies a move in this direction.

Enhancing the crisis capacity of the EU budget should not involve diverting the budget from its main role as a long-term investment tool. The EU budget cannot and should not serve as the primary defence against shocks and emergencies. EU actions must be targeted, bringing added value in the form of coordination gains or economies of scale to alleviate large-scale crises affecting the whole EU. The EU should also support national crisis responses in a spirit of solidarity but must ensure that such support aligns with the EU's longer-term objectives and strategies.

Readjusting EU spending to enable it to respond to emergencies may also be driven by pragmatic considerations. This is especially true for EU spending areas, such as the cohesion policy, where substantial portions of EU funds are allocated and planned years in advance of their actual disbursement. Crises can disrupt these plans, rendering the timeline or scope of certain investments no longer appropriate.

Taking into account all these considerations, this study explores how to increase the crisis response capacity of the EU budget. Below we set out guiding principles and possible mechanisms to enhance the EU budget´s crisis response capacity while ensuring sound financial management and performance control.

Basic principles guiding the design, control and monitoring of EU cohesion policy funds in response to crises

The following principles should be kept in mind when using EU cohesion funds for crisis response:

- It is important to **limit the amount of cohesion policy funds dedicated to financing short-term crisis-relief measures**. This requires a clear definition of the circumstances justifying the mobilisation of EU cohesion policy funds and the authority that should decide on that. As a general rule, the readjustment of EU cohesion plans should be permitted whenever exceptional and unforeseen circumstances arise that make the planned implementation of EU cohesion policy funds unfeasible. The decision should not be left in the hands of the Member State; EU authorities should assess and determine whether the conditions are met.
- **Conditions should be imposed on the design of EU crisis response measures** financed by the cohesion policy to ensure alignment with its long-term goals. Emergency liquidity support to firms could be offered to firms in need but conditioned on some minimum social or environmental standards. Support for repairing damaged infrastructure should be conditioned on respect of the 'build back better' principle.
- To ensure the cost efficiency of the financed measures, the **use of 100 % EU financing** should be avoided. A better way of swiftly providing liquidity is by increasing the pre-financing rates.
- Following the experience of COVID-19 response instruments, it is advisable to maintain the same rules for monitoring and control and the same obligations for fraud prevention and correction

as applied to 'normal' cohesion policy funds. However, both the EU and national authorities should adapt their **fraud prevention strategies**, as spending in times of crisis carries a higher risk of fraud. The ability of national systems to prevent such issues is crucial. Some countries are turning to technological tools to enhance scrutiny and control, helping to detect and prevent fraud. Member States should be incentivised to adopt and extend such tools. Adapting EU audit strategies, as was done for CRII and CRII+, can also play a critical role.

- The existence of different implementation rules for crisis-related interventions and 'normal' interventions may render implementation more complex, eventually resulting in a higher number of irregularities. To mitigate this risk, it is advisable to **simplify procedures**. One effective approach is the development of targeted, simplified cost options for financing specific types of crisis-related activities.
- For accountability reasons, Member States should be required to adapt their national financial management systems to **tag all additional expenditures mobilised in response to a crisis**. In cases in which crisis-related provisions expand the scope of eligible measures, the Commission should establish new policy objectives or specific objectives – and possibly relative indicators – to track the use of funds.
- Member States should be required to construct simple **output indicators** (i.e. the number of beneficiaries or number of enterprises supported) to track performance. Establishing crisis-related common indicators (as was the case for COVID-19) is only appropriate in the event of large-scale crises affecting the whole EU.
- The Commission should develop **specific reporting tools** to provide information about the use of cohesion policy funds in response to shocks and emergencies. A dedicated open data portal could be established to collect and present all information on the use of cohesion policy funds in response to shocks and emergencies in the different Member States.

Finally, there are serious doubts about the capacity to apply **a 'financing not linked to cost' approach** when using EU funds in response to crises. The definition of intended outputs and outcomes *ex-ante* is very challenging in times of crisis. Moreover, a performance-based reimbursement approach limits the ability of EU control and audit authorities to monitor the use of funds at the national level. Given the heightened risk of errors and irregularities in a crisis, the EU's reduced capacity for control poses risks for the protection of the EU´s financial interests.

Four options to regulate the mobilisation of EU cohesion policy funds to address crises

Based on the type of approach adopted (use of flexibilities vs reserves) and the type of crisis addressed (all types of unforeseen circumstances altering the implementation of EU cohesion policy funds vs natural disasters), one can imagine four different complementary tools to regulate the use of cohesion policy funds in response.

The first option is to establish a **general crisis flexibility regime.** Building on the current Article 20 of the Common Provisions Regulation, this would enable the Commission to grant temporary flexibility to Member States facing exceptional or unforeseen circumstances. Similar to Article 20, the mechanism could be triggered by a Council declaration acknowledging the existence of a crisis that justifies mobilising EU cohesion policy funds. To enhance effectiveness, the Council's recognition of a crisis could be decoupled from decisions related to the suspension of EU fiscal rules (like in Article 20), thus simplifying activation. Additionally, the flexibility measures granted to Member States could be expanded. Beyond the current provisions of Article 20, countries affected by crises could be allowed greater leeway to reallocate resources across funds and regions or to finance newly eligible measures.

A second option is a **thematic flexibility regime for natural disasters.** This option entails the creation of a specific flexibility regime allowing Member States to rapidly reallocate cohesion resources in response to natural disasters. It would be built on the Commission's RESTORE proposal. As in the RESTORE proposal, the regime would enable Member States to shift their cohesion resources to cope with natural disasters, and the scope would go beyond the strict 'severe disasters' definition currently applied under the EU Solidarity Fund.

However, unlike in the RESTORE proposal, Member States would not have unilateral power to activate such measures; rather, the Commission would have to assess and validate their activation. To safeguard the long-term strategic objectives of EU cohesion policy, the RESTORE-proposed limit of 10 % of a national cohesion envelope would be retained. Additionally, the 'build back better' principle would be incorporated as a mandatory condition and Member States would be requested to ensure that recovery efforts align with a comprehensive long-term climate adaptation strategy. To further enhance cost efficiency, the proposal would not include the granting of a 100 % EU financing model but pre-financing levels would be increased from 30 % to 50 %.

A third option is the establishment of **optional national crisis reserves** to provide managing authorities with additional funds in response to natural disasters. This optional reserve would be activated following the same procedure as the thematic flexibility regime for natural disasters – that is, the Member State would request its activation in the event of a natural disaster with significant repercussions at the national or regional level (even if not 'severe'). The Commission would assess the request and determine the appropriateness of activating the reserve. The use of the reserve would be governed by the same rules as the thematic flexibility regime concerning the scope of interventions, pre-financing, and adherence to the 'build back better' principle. In the middle of the programming period, Member States would have the option to transfer any unspent reserves to other projects, based on performance and needs criteria.

A fourth option is to establish a **dedicated, EU-level cohesion crisis reserve**. The reserve would be managed by the Commission and activated in response to severe crises impacting the entire EU (e.g. the COVID-19 pandemic) or a single Member State. This would include 'severe national disasters' as defined by the EUSF or other major crises impacting a Member State.

When reacting to an EU-wide crisis, disbursements from the EU-level reserve would be allocated according to an ad hoc distribution key, considering both the scale of the crisis and Member States' financial capacities. When responding to severe crises in Member States, the distribution would follow the 'first come, first served' approach (like the EUSF).

An EU-level reserve would be especially useful during the second half of the programming period when Member States risk having fewer available resources for reprogramming and national cohesion reserves may no longer be in place. To guarantee the capacity to react to crises occurring during the last years of the programming period, the CPR could impose a minimum percentage of funds set aside to be used during the last 3 years of the Multiannual Financial Framework.

Should SURE be converted into a permanent instrument?

This brings us to the second pillar of the study, which reflects on the **options for making SURE a permanent mechanism.** Legally, there are no significant obstacles to such a move, but the economic rationale is debatable. While SURE was a successful response to COVID-19, the future benefits of such an instrument may be too limited to justify creating a permanent version. From an EU budgetary perspective, it may be more efficient to reform existing macroeconomic instruments, such as the European Financial Stabilisation Mechanism, rather than establish a new instrument.

The **EFSM scope could be expanded to include labour market shocks**. This would lead to the establishment of a single EU loan-based mechanism, under the existing EFSM. Its scope could explicitly incorporate the SURE objectives, without needing to set up a new permanent SURE instrument. The EFSM scope could be extended to work as a single EU macroeconomic tool for crisis response designed to provide financial assistance to any EU Member State experiencing or threatened by severe financial difficulties.

Specifically, the EFSM could provide targeted relief for Member States facing dramatic public expenditure increases due to measures aimed at mitigating unemployment and income loss, including but not limited to short-term work schemes. The existing guarantee system could be strengthened to increase lending capacity, with minimal risk to the EU budget. Monitoring, reporting, and control mechanisms, including those for protecting the EU's financial interests, are already in place for the EFSM and would not need significant changes. Still, performance reporting could be improved based on the experience of SURE. Further reflection is needed on the issue of macroeconomic conditionality, which determines access to loans. While conditionality should remain, it should be carefully calibrated to avoid creating barriers for countries in genuine need.

Complementarity with other EU-level instruments providing support for emergencies

The EU budget relies on some small EU-level mechanisms and instruments dedicated to respond to emergencies, such as the Union Civil Protection Mechanism/RescEU (UCPM), the Emergency Support Instrument (ESI) and the EU Solidarity Fund (EUSF). The main limitation of all these instruments is their size. Due to their limited scale, they are not appropriate to address the consequences of large-scale crises such as COVID-19. In the event of big shocks, there is a need to rapidly increase the EU's financial capacity, and this can only be done through borrowing and lending. However, these small EU emergency instruments can play a valuable complementary role in the response to large shocks. For example, the EU's joint COVID-19 vaccine strategy was funded by EUR 2.15 billion from the EU budget, supplemented by contributions from national governments.

EU emergency instruments could also work in tandem with the four options envisaged for using EU cohesion policy funds in response to crises.

First, **flexibilities and national reserves** would serve to bolster national-level or regional-level emergency programmes. In this respect, they would not imply any act of cross-country solidarity. They would therefore have a different scope of action than EU emergency instruments such as the UCPM or ESI, which finance and organise short-term cross-country solidarity amid national emergencies.

Second, the **use of an EU-level cohesion reserve** would work in complementarity with the EUSF. The cohesion reserve would have a broader scope of action than the EUSF, covering both man-made and 'severe' natural disasters. Additionally, for natural disasters already covered by the EUSF, the cohesion reserve would provide supplementary support, enhancing the total EU funding available. Crucially, it would also enable much faster financial assistance to affected Member States, ensuring more timely relief. While EUSF support typically arrives about a year after a disaster, the cohesion reserve, activated by a Commission decision, could deliver financial aid within a shorter timeframe.

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Building on Part 1, which draws lessons from the implementation of CRII, CRII+, REACT-EU and SURE, Part 2 of this study explores alternative approaches to enhance the EU budget's capacity to respond to crises and discusses the implications of these options from the point of view of control and accountability.

PE 766.327
Print ISBN 978-92-848-2420-5 | doi:10.2861/0031982 | QA-01-24-073-EN-C
PDF ISBN 978-92-848-2419-9 | doi:10.2861/3420002 | QA-01-24-073-EN-N