

COMMUNITY SUPPORT?

Municipalities' use of EU cohesion funds in response to Covid-19:
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Report for The Left MEPs of the Regional Development Committee in the European Parliament - Younous Omarjee, Martina Michels, Niyazi Kizilyürek, Dimitrios Papadimoulis.
By Martin Ferry, Wilbert den Hoed, Stefan Kah



B-1047 Brussels, Belgium
+32 (0)2 283 23 01
guengl-communications@europarl.europa.eu
www.left.eu



REGISTERED ADDRESS:

**European Policies Research Centre Delft
EPRC Delft**

De Cuserstraat 91
1081 CN Amsterdam
Netherlands
Tel: +31 (0) 15 27 86093
Email: info@eprcdelft.eu

VISITING ADDRESS:

**European Policies Research Centre Delft
TU Delft**

Julianalaan 134
2628 BL Delft
Netherlands
Tel: +31 (0) 15 27 86093
Email: info@eprcdelft.eu

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Where does all the EU money go? Municipalities' use of EU Cohesion Policy funding in response to Covid-19

A study on the use of EU Cohesion Policy funds by municipalities in response to Covid-19.

Foreword

by Martina Michels, Regional Development Committee (REGI) coordinator for The Left in the European Parliament

Across the EU, municipalities are facing unprecedented challenges and uncertainties caused by the Covid-19 pandemic. Right from the very start, they have been at the forefront of providing local support in both health and social sectors. Municipalities were the first to respond in helping with unemployment benefits and to provide support for the self-employed; measures such as financial support to local businesses, tax flexibility and fees exemptions were introduced. However, as the crisis wore on, municipalities have come under increasing pressure due to rising expenditure but also a significant drop in revenues at the same time. They also provided assistance to the worst-affected areas in the neighbourhood across borders. Despite different lockdown arrangements, local economies have suffered everywhere and have been drastically affected by the necessary measures. These included the closing of restaurants and hotels, shops, schools and universities, factories, construction works or public transport.

Generally speaking, crisis management resources and initiatives are organised at the national level. However, they rely on European, regional and municipal competences to implement such measures. National recovery packages, for example - supported by EU aid - often play a key role in addressing the economic impact of the crisis on the ground. **Local authorities often operate 'between the cracks' of national and European support schemes.**

Measures which have been in place since April 2019 under the EU Cohesion Policy have, during this crisis, provided rapid response to help regions and municipalities to cope with effects and challenges of the pandemic. Other aid packages also remain on track. In autumn 2020, just half a year after the first Cohesion Policy measures (CRII and CRII+) had been launched by EU institutions - in record time - our team at the Regional Development committee (REGI) thought this is a good moment to carry out an initial assessment. We have therefore commissioned this study to provide answers to the following questions:

1. **How quickly and efficiently does EU aid reach municipal level and for which measures?**
2. **What organisational, governance, knowledge, distribution and communication structures have contributed to the successful use of EU cohesion funds specifically foreseen in the crisis support packages?**
3. **What lessons can be learned for further crisis assistance programmes and the new Cohesion Policy funding period in general?**

The outcome of this study is quite encouraging. At the same time, it identifies the challenges ahead and the need for action. Even the relatively short case studies carried out in Member States as diverse as Cyprus, Germany, France, Poland, Slovenia and the Netherlands have illustrated the impressive work and creativity of municipalities, regardless of their level of economic development or geographical location. Examples from the literature review underline the tireless commitment of local authorities in all EU countries.

And as we had thought - we just wanted to know the precise details - the support of the European Union, in particular the **EU Cohesion Policy funds, plays an important role in helping municipalities to tackle the Covid-19 crisis, as well as the immediate, medium and long-term challenges that it poses.**

Existing funds have been redirected and new funds will be made available to all EU countries and regions to tackle the crisis. Once again, the Cohesion Policy has proved to be the EU's main instrument of solidarity, helping to offset social, economic and territorial disparities across the bloc.

However, the disparities which had already been in place pre-Covid - during 'normal times' - have been exacerbated by the pandemic. Indeed, the Cohesion Policy cannot compensate for the flawed and devastating economic and fiscal policies. Cuts in EU cohesion funds have limited the support available to regions and municipalities. Strict fiscal rules and 'reforms' based on the Stability and Growth Pact (which is currently suspended), the European Semester programme, and national policies derived from the same ideological principles have contributed to the further dismantling of the public sector, including health and social services.

Efforts are underway to 'streamline' public administration, particularly at municipal level. But instead of downsizing this sphere at, in particular, municipal levels, there is an urgent need for improved administrative capacity, for inter-municipal and cross-border connectivity, as well as a fundamental modernisation of digital infrastructure and skills. This would not only be in the interest of better governance, it could also help bring EU Cohesion Policy closer to citizens, improve transparency and promote democratic participation.

The importance of additional resources, policy coherence and active involvement of municipalities in the design and implementation of Cohesion Policy has been underscored by this crisis. Our task is thus to continue our efforts at the European level to better meet the objectives of social justice, environmental sustainability, labour rights, gender equality, human rights and democracy.

The Left in the European Parliament have continuously worked with local and regional partners for many years. They are the backbone of our struggles for a better Europe. Through them, we learn about the challenges that people face in their daily lives, get feedback on our political work, and we take on board all of these with us on our return to the European Parliament. With this study, we wanted to work in both directions: explore feedback and challenges, and at the same time, we wanted to provide practical examples to help local stakeholders in using available EU funds.

On behalf of The Left's REGI team, I would like to thank Martin Ferry, Wilbert den Hoed and Stefan Kah of the European Policies Research Centre in Delft for their friendly and efficient cooperation in carrying out this valuable research.

Martina MICHELS, February 2021



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LIST OF ABBREVIATIONS

AER	Assembly of European Regions
ATC	Tourism Agency of Corsica (Agence du Tourisme de la Corse)
CAPA	Cyprus Academy of Public Administration
CF	Cohesion Fund
CoE	Council of Europe
CoR	Committee of the Regions
CP	Cohesion Policy
CPMR	Conference of Peripheral Maritime Regions of Europe
CRII (+)	Coronavirus Response Investment Initiative (Plus)
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EGTC	European Grouping of Territorial Cooperation
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ETC	European Territorial Cooperation
EU	European Union
FEAD	Fund for European Aid to the Most Deprived
GDP	Gross Domestic Product
IB	Intermediate Body
ICU	Intensive Care Unit
ISUD	Integrated Sustainable Urban Development
ITI	Integrated Territorial Investment
JTF	Just Transition Fund
MA	Managing Authority
MFF	Multi-annual Financial Framework
MS	Member State(s)
NPRZ	National Programme Rotterdam South (Nationaal Programma Rotterdam Zuid)
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
PPE	Personal protective equipment
REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
RRF	Recovery and Resilience Facility
SME	Small and medium sized enterprises
YEI	Youth Employment Initiative
ZMOS	Association of City Municipalities of Slovenia (Združenje Mestnih Občin Slovenije)

INTRODUCTION

This study provides insights into how municipalities have used Cohesion Policy funding in response to the COVID-19 crisis. It was carried out in autumn 2020 at the request of members of the Regional Development Committee (REGI) in The Left in European Parliament.

The local impact of the crisis is very varied with significant implications for immediate crisis management and policy responses. There are unprecedented financial and administrative pressures on municipal authorities as they respond to health-related, economic and social emergencies. Municipalities are introducing mitigating measures and local planning is underway to launch the recovery process. Difficult decisions are being made, covering economic, social and environmental priorities with short, medium and long-term objectives.

Support from the European Union, including EU Cohesion Policy funding, has a potentially pivotal role to play. The Coronavirus Response Investment Initiative (CRII) and CRII+ enabled Member States (MS) to set up fast and sizeable policy responses within the framework of EU Cohesion Policy that could cushion the negative impact of the crisis. A greater role for Cohesion Policy is expected during the recovery phase including the use of additional funding provided through the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU).¹ This will deliver €47.5 billion of additional funds made available to the ERDF and the ESF as well as to the European Fund for Aid to the Most Deprived (FEAD). These additional funds will be provided in 2020-22 through a targeted revision to the current financial framework. Moreover, in implementing Cohesion Policy programmes and preparing for the next period, authorities are also taking account of the EU Recovery and Resilience Facility (RRF), which makes €672.5 billion in loans and grants available to MS to support reforms and investments.

Based on a literature review and case study research, the aim of this report is to assess the experiences of municipalities in accessing and using Cohesion Policy measures, the factors facilitating or impeding this access and the prospects for effective utilisation at local level in the coming years. After briefly setting out the adopted methodology (Section 2), Section 3 takes stock of the COVID-19 impacts in the case studies, covering implications for health and society, economic impacts and consequences for municipal budgets. Section 4 then looks at the role of Cohesion Policy in the municipalities' responses, be it through using existing funding or new resources, and highlights any facilitating and impeding factors. Finally, Section 5 summarises some key lessons and conclusions, especially in terms of the forthcoming 2021-27 Cohesion Policy programming period.

¹ Bachtler J, Mendez C and Wishlade F (2020) The Recovery Plan for Europe and Cohesion Policy, Report to the European Policy Research Consortium, European Policies Research Centre, Glasgow and Delft.

02

METHODOLOGY

This study makes use of a mix of documentary sources and qualitative case study research. Since the start of the COVID-19 pandemic in early 2020, a wide range of material has been published, ranging from short policy briefings and 'spotlights' to an increasing number of more in-depth studies. Recent examples are looking at both the impact of the pandemic and, increasingly, of the related policy responses. For instance, the OECD and the European Committee of the Regions have carried out a joint survey on the impact of the COVID-19 crisis on regional and local governments,² while the European Parliament's REGI Committee has published an overview of Cohesion Policy response measures.³

In order to understand how municipalities have used Cohesion Policy funding in response to the pandemic, five case studies are central in this research. These have been designed to provide comparative and multi-national insights into the use of Cohesion Policy, including its benefits, challenges and key lessons for the future. The case studies cover a range of municipalities in six EU Member States: Cyprus, Germany/Poland, France, the Netherlands and Slovenia. Figure 1 shows their geographical distribution, regional situation and brief case profiles. Table 1 provides more information on the case studies, both in terms of their main Cohesion Policy features and their specific territorial and governance characteristics. In the second half of November 2020, in each of the five case studies one or more interviews have been carried out with policy-makers representing municipalities and/or that are involved in the implementation of Cohesion Policy funding at local level:

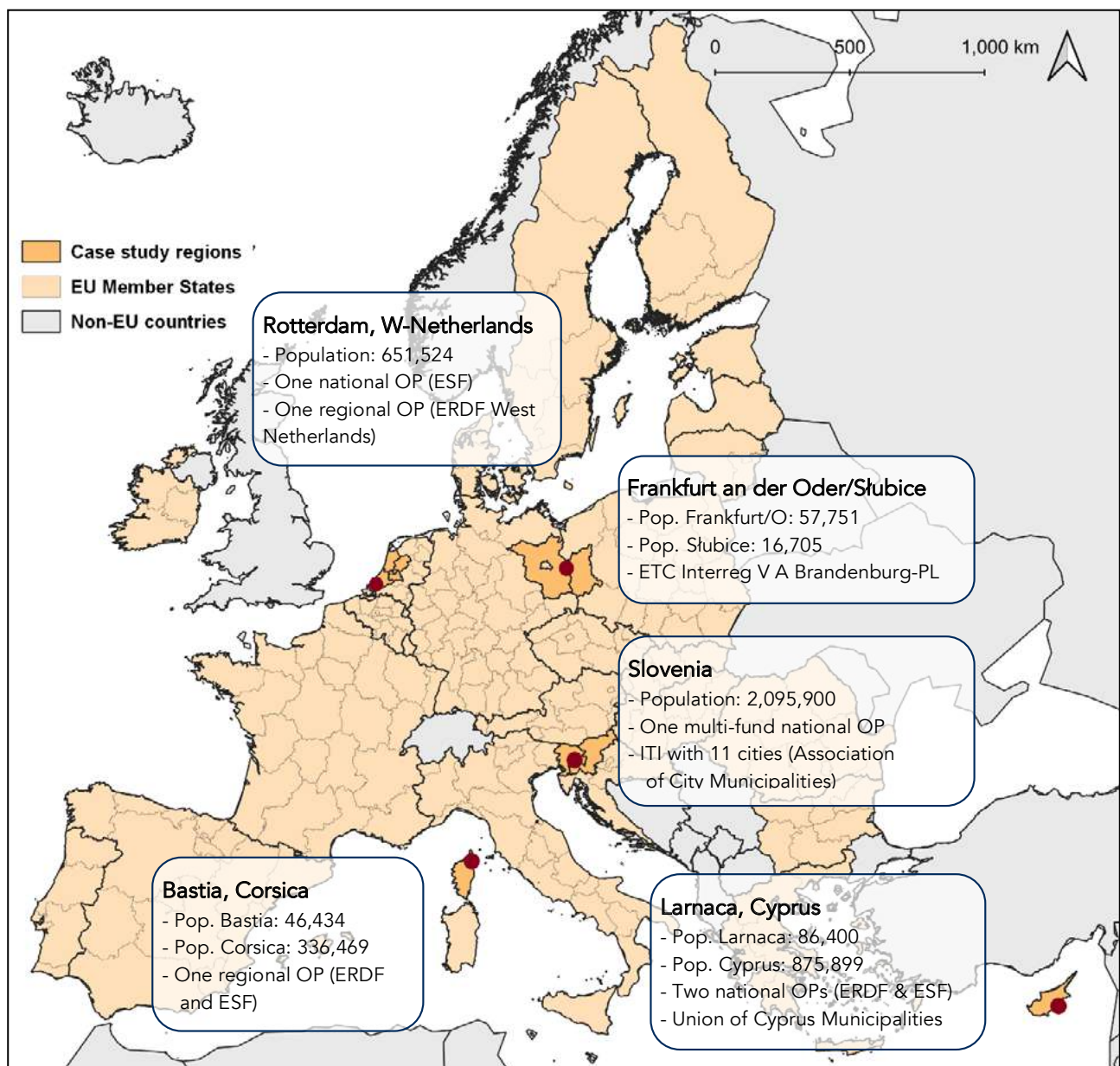
- Larnaca: senior official, representative of the Union of Cyprus Municipalities, 18 November 2020.
- Frankfurt an der Oder/Ślubice: Municipality of Frankfurt (an der Oder) (German-Polish cooperation office), 16 November 2020, and Municipality of Ślubice, 19 November 2020.
- Corsica: Bastia municipality and Direction des Affaires Européennes de la Cullettività di Corsica (MA for the regional ERDF OP), 24 November 2020.
- Rotterdam: Programme Manager Integrated Territorial Investment (ITI). City of Rotterdam, Kansen voor West (ERDF MA West Netherlands), 20 November 2020.
- Slovenia: Association of City Municipalities of Slovenia (Intermediate Body for Integrated Territorial Investment), 23 November 2020.

The interviews were carried out online through a semi-structured questionnaire. Box 1 lists the key interview questions, which have been tailored to each of the case studies. The interviews aimed to generate a variety of perspectives on the use of Cohesion Policy funding in response to the COVID-19 crisis. Interviewees represented organisations from six different Member States, leading to insights from individual municipalities, municipal associations, different governance structures, cross-border experiences, and island communities.

² OECD (2020) The impact of the COVID-19 crisis on regional and local governments, Main findings from the joint CoR-OECD survey, p. 14, https://www.oecd-ilibrary.org/urban-rural-and-regional-development/the-impact-of-the-covid-19-crisis-on-regional-and-local-governments_fb952497-en

³ Böhme K and Lürer C (2020) Research for REGI Committee – Cohesion Policy Measures in Response to the COVID-19 Pandemic, European Parliament, Policy Department for Structural and Cohesion Policies, Brussels, [https://www.europarl.europa.eu/RegData/etudes/STUD/2020/652216/IPOL_STU\(2020\)652216_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/652216/IPOL_STU(2020)652216_EN.pdf)

Figure 1: Map of case study locations



Source: Eurostat (map layers and population data); National Statistics Offices (population data).

BOX 1: INTERVIEW QUESTIONS FOR CASE STUDIES

1. What has been the impact of the crisis in the municipality?, including:

- health and social issues
- economic challenges
- budgetary constraints.

2. What are the main policy responses from the municipality?, including:

- immediate emergency measures
- short to medium-term mitigating measures
- longer term recovery measures.

3. What role is EU Cohesion Policy (and within this CRII and CRII+) playing in the policy response to the crisis?

- as an additional source of funding?
- in the provision of strategic frameworks, integrated territorial instruments, management and implementation systems, partnership structures and networks, etc.
- Can you provide examples of effective and timely use of Cohesion Policy funding in responding to the crisis?

4. What is facilitating or impeding the timely and effective use of EU funding by municipalities?, including:

- issues related to administrative capacities and institutional configurations in place for Cohesion Policy management and implementation in your specific context.
- features of the EU Recovery Package and the new features of Cohesion Policy (within this CRII and CRII+).

5. What are the key lessons to be drawn for the future from experience thus far of using Cohesion Policy to address the crisis?

- in terms of practical recommendations for quick and effective access for municipalities.
- in terms of broader questions for the territorial dimension of REACT-EU, RRF and the new Just Transition Fund, and the scope for the local level to play an active part in the design and delivery of these initiatives?

Table 1: Case studies and their main features

Case	Cohesion Policy features	Specific territorial and governance characteristics
Larnaca (Cyprus)	Two national OPs: Cyprus ERDF/CF; Cyprus ESF/YEI	Highly centralised policy-making. The Union of Cyprus Municipalities participates in consultations on preparation of the programmes and plays an important coordination role between national Cohesion Policy bodies and the municipalities.
Frankfurt an der Oder (Germany) / Słubice (Poland)	ETC OP Interreg V A Brandenburg-Poland	Frankfurt (Oder) is on the border with Poland and has strong links with Słubice, its 'twin' city on the Polish side of the border. The Frankfurt-Słubice Cooperation Centre is a key player in coordination cooperation between the two cities, which are part of a common functional urban area and working on a range of common interest areas (disaster control, economic development, shared services and amenities, etc.).
Corsica (France)	Regional OP (ERDF and ESF)	The MA is the Collectivity of Corsica, a territorial subdivision with recognised governing authority. Three Integrated Territorial Investment (ITI) strategies are being implemented in Corsica, including one covering the agglomeration of Bastia. This has funding of €7 million and covers five municipalities, with the municipality of Bastia representing 75% of the approximately 60,000 inhabitants. The Intermediate Body for the ITI is the Community of the Agglomeration of Bastia (CAB) an inter-municipal cooperation structure covering five municipalities.
Rotterdam (Netherlands)	Regional OP: Kansens voor West – ERDF	The West Netherlands ERDF region consists of a partnership between four provinces and four large municipalities, including Rotterdam. It is the only Dutch ESIF programme in which municipalities are institutionally represented and receive direct support through the ITI structure. Dutch municipalities do not commonly operate as direct beneficiaries of the ERDF programmes. The overall budget is relatively small (€1.9 billion all-ESIF; €510 million ERDF; €190 million in West Netherlands) and European funds have not been used to respond to the COVID-19 crisis. Preparations for REACT-EU are ongoing, also at the urban ITI level, and will start in 2021.
Slovenia	Single national multi-Fund OP (ERDF, ESF, CF)	EU-funded Sustainable Urban Development (SUD) strategies are implemented through the ITIs in the 11 largest urban areas, which were given the status of City Municipality. The Government Office for Development and European Cohesion Policy is the MA responsible for implementing SUD in Slovenia but the 11 cities organised themselves into the Association of City Municipalities of Slovenia. The Association acts on behalf of all 11 cities and has been delegated responsibilities of strategy evaluation and project selection, functioning also as coordination body for SUD.

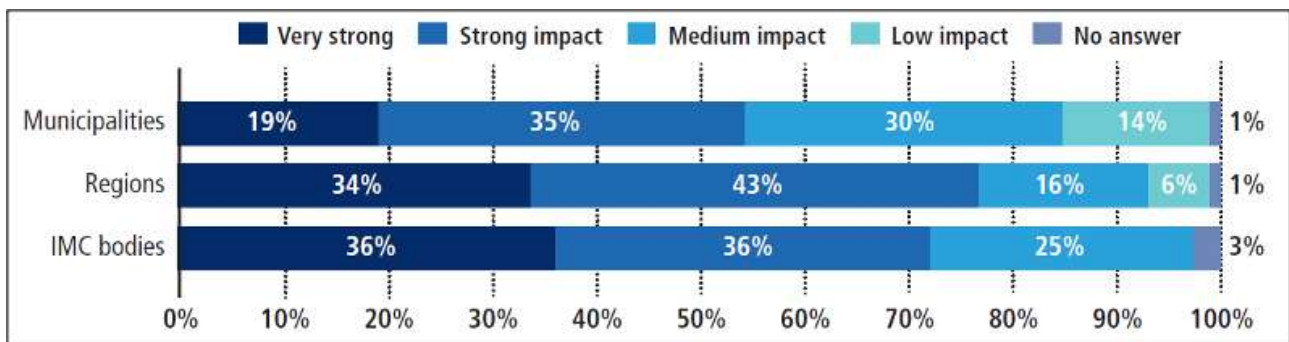
Source: EPRC research.

03

COVID-19 IMPACT AND RESPONSES

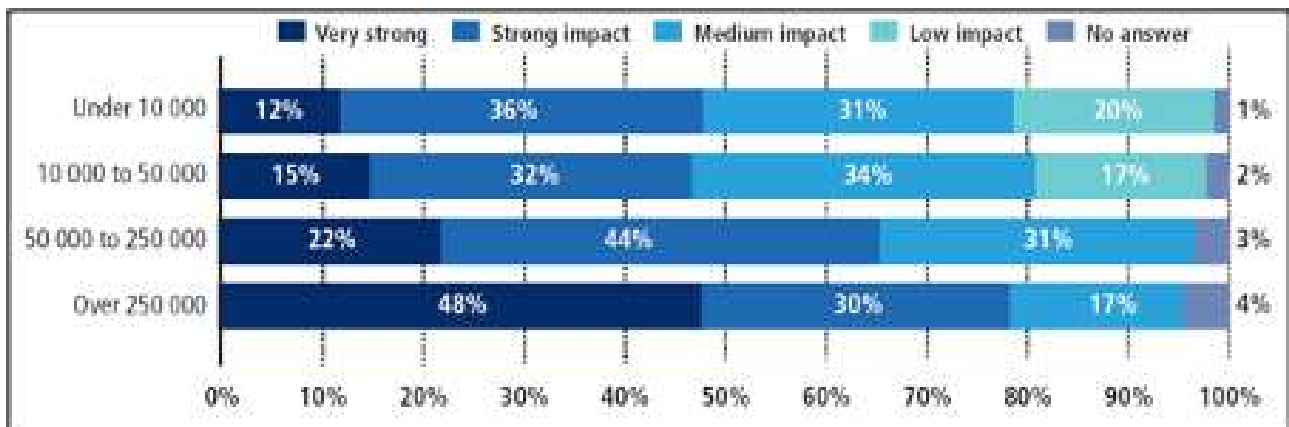
Municipal authorities are struggling to navigate unprecedented uncertainty created by the COVID-19 pandemic. In June 2020, the OECD and the Committee of the Regions carried out a survey among 300 regions and municipalities. It showed that the impact of COVID-19 on regional and local governments is felt to be lower for municipalities than for regions (Figure 2). The impact tends to increase with the size of the municipality (Figure 3). As background data, this shows that the local impact of the crisis is highly heterogeneous, with strong territorial variation that has significant implications for immediate crisis management and policy responses. Municipal authorities are addressing health and social impacts, particularly in areas with more vulnerable or deprived populations. At the same time, the economic impact varies depending on the local economy's exposure to global value chains and specialisation in specific sectors. Municipalities are introducing mitigating measures, such as financial aid to local businesses and flexibility and exemption of tax and fee payments. The different short and longer-term initiatives involve difficult trade-offs and put pressure on the capacities of municipalities, precisely when the crisis has increased expenditure and significantly reduced revenue. The following sub-sections review each of these impacts and subsequent responses — in the health and social, economic, and budgetary domains — on the five case study areas.

Figure 2: Impact of the COVID-19 crisis on subnational governments, by government type



Source: OECD (2020) *The impact of the COVID-19 crisis on regional and local governments*, p. 9.

Figure 3: Impact of the COVID-19 crisis on subnational governments, by municipal population



Source: OECD (2020) *The impact of the COVID-19 crisis on regional and local governments*, p. 9.

3.1 HEALTH AND SOCIAL IMPACTS

Municipalities have been at the front line of health and social support actions since the outbreak of the pandemic. This means that the different responses to the crisis in terms of increasing healthcare capacity and responding to citizens in need were often put in hands of local actors. Usually, the resources and initiatives are organised at the national level, but **build on both national and local competences in the implementation** of such measures. Efforts are often coordinated between local authorities through umbrella organisations that keep close contact with the national actors (e.g. the health ministries, see Box 2).

BOX 2: HEALTH RESPONSES IN CYPRUS



For instance in **Cyprus**, the COVID-19 pandemic is dealt with centrally by the national government, mainly by the Ministry of Health. There has not been any change in the allocation of competences between central (national) government and local authorities in Cyprus. There is constant communication between the Ministry of Interior and the Unions of Cyprus Municipalities and Cyprus Communities, in order to ensure coordination in actions, as well as compliance with the relevant ministerial orders and decisions of the Council of Ministers. All relevant circulars issued by the competent Ministries (Health, Finance, Labour) are immediately forwarded to the Unions for implementation. For instance, the central government provided municipal and community councils operating retirement homes with consumables, such as face masks for the protection of residents in high risk groups.

Especially in the early stages of the crisis, municipalities were the first administrative layer to provide basic health and welfare provision. This happened in the Netherlands, where municipalities were the first to respond to requests for unemployment benefits and support for self-employed workers. In Corsica, the island region has had to triple the number of beds in intensive care units in order to deal with the increasing numbers of infected people. The municipality of Bastia also introduced a click and collect platform for retailers to reduce operational costs and it invested in masks and PPE. In Cyprus, local authority councils formed teams, in some cases with the help of volunteers from the community, to distribute food and medication to vulnerable citizens who were unable to leave their homes. Local authority councils have disinfected public areas, following instructions from the Ministry of Health. Municipal police officers have been designated, among others, for the supervision of compliance with lockdown measures included in Ministerial Orders.

Some municipalities are located at the worst-hit areas within their respective countries. Corsica experienced a significant impact of COVID-19 during the initial outbreak. In Bastia there was pressure on the main hospital and its ICU capacity. Since March 2020, the Rotterdam region has continuously been among the worst-hit Dutch regions in number of cases per capita. This applies to the wider central-western Netherlands urban ring, but centres on more disadvantaged areas such as the part of Rotterdam south of the River Meuse. This is also where the social challenges have been highest: unemployment rates and social benefit applications have been among the highest in the Netherlands. This happened after a period in which labour market and economic indicators of the long-term National Programme Rotterdam South (*NPRZ*) were converging towards the national socio-economic situation. Since the first peak of the pandemic, some of the indicators have shown a small recovery.

Municipalities are highlighting the partnership with central authorities in the provision of health and welfare services, as well as in the support to businesses and workers impacted by COVID-19. In Larnaca (Cyprus), measures originated from the national level, whereas in Slovenia, a range of actions were taken on a flexible basis as described in Box 3. Where the levels of infection and death were less severe, municipalities were providing aid to worse-hit areas across borders. In the urban area of Frankfurt-Ślubiце, **cross-border health initiatives have played a key role to alleviate the social and health problems** resulting from the pandemic. Although health issues have been less prevalent in Frankfurt, the city takes part in common projects and facilities that cross the national border. The number of cases has been higher in Ślubiце, and the capacity of the health sector has been under more strain. Ideally, health services of Frankfurt could help address capacity challenges. However, there are institutional obstacles, including differences in health insurance systems and costs which could mean that patients from Ślubiце have to be transported 30-40 km to the nearest available Polish hospital rather than to nearby Frankfurt. Differences in schooling provision also complicated a joint approach, as Polish schools went fully online early-on while German schools were kept open.

BOX 3: MUNICIPAL ANTI-COVID ACTIONS IN SLOVENIA



Slovenian municipalities have taken different measures to help alleviate the social and health problems caused by COVID-19. This was often organised in an ad hoc way, tailored to specific local situations. Urban municipalities coordinated their response via the ZMOS videoconferences of mayors. During the lockdown periods between mid-March and the end of May 2020, and since October, municipalities took the following actions (depending on the municipality):

- provision of free meals for vulnerable groups;
- organised home food delivery (including by Ljubljana bus drivers) for children from at-risk families and elderly citizens;
- provision of essential childcare services;
- implementation of movement restrictions;
- provision of psychological support to residents;⁴
- issuing instructions to residents to relieve the pressure on healthcare facilities;
- waiving or postponing the payment of municipal taxes, charges, rents;
- organisation of deliveries of protective gear to local public institutions; and
- organisation of volunteer groups.

Source: OECD (2020) OECD Policy Responses to Coronavirus (COVID-19) - Cities policy responses.

Lastly, the travel restrictions that followed the pandemic have resurrected national boundaries. This so-called 'covid-fencing' has led to **increasing social tensions** in Frankfurt-Słubice at the start of the outbreak.⁵ COVID-fencing has sparked protests on both sides of the border at the end of April 2020, after which exemptions were made for people crossing the border for professional, business and commercial reasons. Also in October, a new decision to restrict border crossings was proposed by the German Brandenburg region. This prompted the mayors of Frankfurt and Słubice to write a joint letter to the region to keep the border open for professional and non-professional travel. As a result, Brandenburg region reconsidered its position. The different restrictive measures have also triggered anti-lockdown demonstrations in Frankfurt, often based on conspiracy theories.

3.2 ECONOMIC IMPACT

Lockdown measures have differed from country to country, and were sometimes instated in specific regions or local areas. In general, they have drastically impacted local economies, involving (a combination of) closing restaurants and hotels, shops, schools and universities, and shutting down workplaces and factories, the construction sector, and public transport.⁶ As with the immediate health impacts of the crisis, **national economic emergency packages are often playing a key role in addressing the economic impact of the crisis in municipalities.** In Rotterdam for instance, the most substantial emergency schemes (income support, SME aid) originate at the national level. Dutch subnational governments (provinces and municipalities) are often responsible for the implementation of these packages and/or act as contact points for businesses in difficulty. Yet, the City of Rotterdam has also provided emergency support to businesses that could not receive (enough) support via the national measures.

Municipalities thus often operate 'between the cracks' of national support schemes, whereby administrative borders may create obstacles for effective response measures. In Frankfurt an der Oder, the German government is supporting businesses and employees impacted by the crisis, but the private sector, and in particular smaller firms, is still struggling. In Słubice, many businesses rely on German markets. The aforementioned 'COVID-fencing' has severely limited the continuation of key economic activities on both sides of the border. The March border closure prevented commuters from working across the border and disrupted family life. For instance, Polish workers, including doctors and nurses, had to decide whether to stay on the Polish side of the border or to rent private rooms in Germany in order to keep working there. Some of the around 20,000 Polish workers crossing the border to work in the Brandenburg region or Berlin decided to remain in Germany after

⁴ See <https://www.ljubljana.si/sl/mestna-obicina/mestna-uprava-mu-mol/oddelki/oddelek-za-zdravje-in-socialno-varstvo/koronavirus-informacije-in-ukrepi/>

⁵ Madeiros E, Guillermo Ramirez M, Ocskay G and Peyrony J (2020) Effects of 'covidfencing' in European cross-border regions: an initial overview.

⁶ European Committee of the Regions (2020) EU Annual Regional and Local Barometer. Brussels, 2 October 2020.

the closing of the borders. This situation has highlighted the importance of maintaining regular cross-border commuter flows, alongside the functioning of cross-border public health services. Although the border has been re-opened, less people are crossing and trade remain severely impacted.

The crisis has thus underlined the vital role of transport links for continued economic activity. This not only applies to cross-border links, but also to transport within cities and surrounding areas. In Slovenia, municipalities instated free public parking in the period when public transport was not operating, whereas in Rotterdam, parking fees were lifted for key workers. At the same time, the hospitality industry in Bastia and Rotterdam was given the opportunity to extend their operations into public areas and parking spaces. Some Slovenian municipalities closed or limited access to public playgrounds, markets and other public spaces.

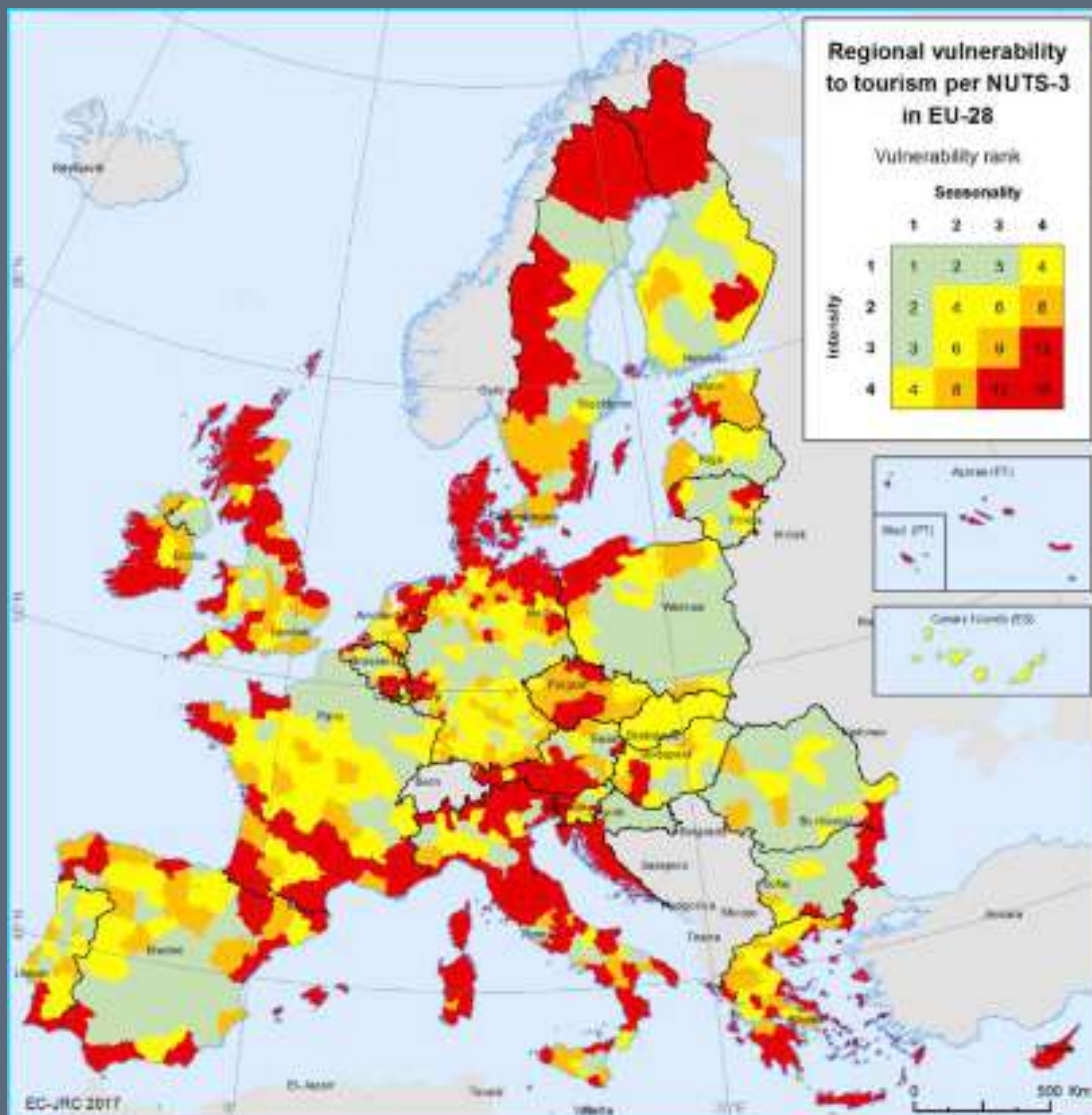
The economic effects of the crisis have been particularly significant in certain sectors, such as retail, tourism and hospitality. Shops closed for several months, and some industries have come to a standstill. In Slovenia, the impact on the overall economic has been substantial, but the loss of income from tourism is creating particular problems. In Corsica, tourism represents 24% of the island's GDP, and although some restrictions have been lifted, the entire summer season is likely to be seriously affected. In Cyprus, the tourism sector has experienced a similar standstill (Box 4). The Corsican authorities are giving special support to the affected sectors, such as agriculture and fishery. For example, the Agricultural and Rural Development Office of Corsica will buy unsold stocks from the sheep and goat farmers during the crisis. The Environment Office of Corsica, in consultation with the professional sector, is rallying to preserve Corsican fishing, pending the adaptation of the mobilisation rules of the European Maritime and Fisheries Fund.

BOX 4: DECREASING FIGURES IN THE TOURISM SECTOR IN CYPRUS

As the map below shows, **various case study municipalities are located in regions that are particularly vulnerable to impacts on the tourism sector.** An immediate challenge for municipalities in Cyprus, including Larnaca, was organising basic services and emergency responses for citizens. In terms of local economies, many challenges centred on the tourism sector, which has experienced large declines:

- according to the Statistical Service of Cyprus,⁷ **tourist arrivals** up to August 2020 were only about 20% of what they were in August 2019.
 - › 104,261 people visited the island in August 2020 compared to 553,845 in August 2019, which is a decrease of 81.2%.
 - › from January to August 2020, arrivals totalled 424,850 compared to 2,735,839 in the corresponding period of 2019, recording a drop of 84.5%.
- In the first six months of 2020, **tourism revenue** was only €122 million compared with around €1 billion in 2019, an 87.8% drop.

This decline was in part attributable to a ban on arrivals dating from March 2020 imposed to prevent the spread of the coronavirus in Cyprus.



Map source: European Committee of the Regions (2020) EU Annual Regional and Local Barometer. Brussels, 2 October 2020.

Source: EPRC research and <https://www.financialmirror.com/2020/11/04/covid19-cyprus-tourism-hit-worse-than-expected/>.

⁷ http://www.cystat.gov.cy/mof/cystat/statistics.nsf/services_71main_en/services_71main_en?OpenForm&sub=1&sel=1

Municipalities are taking specific measures to mitigate the impact on sectors that are of particular value to the local economy. They are often introduced with different time frames in mind. In the short term, they include: direct financial aid to local businesses; introducing flexibility and exemption of tax and fee payments; stimulating economic activities; compensating businesses having contracts with the municipality; creating new online marketplaces; and providing advice services to entrepreneurs. In the longer term, a more strategic local planning approach is taken, including by the establishment of groups that explore how the recovery process can incorporate sustainable economic, demographic and environmental components.⁸ Specific measures introduced by the case study municipalities include tax breaks, lump sums, financing schemes, cash support, credit access, and preserving economic sectors (tourism).

This staged approach is clearly visible in the municipal recovery plans of Corsica (Box 5) and Rotterdam. Rotterdam's recovery plan sketches the municipal policy responses from July 2020 to the end of 2021. It targets an immediate restart of social and economic functions, and sketches a medium-term approach to recovery. The short-term action plan consists of 'sprint projects' targeting education, mobility and SMEs. Project examples are: a summer campus; giving priority to pedestrians and cyclists; creating pop-up terraces; enlarging public and recreational space; job retention; start-up vouchers; and an emergency fund for culture and sports. The medium-term recovery plan (up until the end of 2021) aims for structural crisis recovery and has the following agenda:

- An investment programme (€233 million) targeting climate adaptation, recreation, culture, urban economy, mobility and housing.
- Building. Investment in high-quality housing and mobility, also to support the local construction sector.
- Work and retraining. New labour market and business models require retraining for in-demand professions.⁹

The proposed investments are expected to contribute to the creation of new jobs in growing sectors and act as a catalyst for private and public funding at multiple levels.

⁸ Eurocities (2020) COVID-19 and recovery, <https://eurocities.eu/goals/covid-19-and-recovery/>.

⁹ Gemeente Rotterdam (2020) Rotterdam: Sterker door. Een aanpak voor het herstarten, herstellen en sterker uit de crisis komen van stad, haven en regio. Rotterdam, 3 June 2020.

BOX 5: THREE STRANDS OF SHORT AND LONG-TERM ECONOMIC MEASURES IN CORSICA



In March 2020, the Corsican Territorial Collectivity, in collaboration with the Prefecture, set up a **support and action cell for Corsican businesses**. On 26 March, the Corsican Collectivity also activated a plan of €30 million for certain communities and businesses in three strands:

1. The **"Aiutu in casa – Covid-19"** scheme focuses on people and households in economic difficulty or in an otherwise precarious or vulnerable situation. This measure has a budgetary envelope of €3.2 million and will initiate a solidarity system for modest income households who are suffering from a decrease in income as a result of the COVID-19 crisis. The scheme covers part of the rent during the lockdown period using the payment of maximum lump sum of €150.
2. The **"Sustegnu – Covid-19" fund** is created as a specific solidarity fund for island companies and aims to safeguard Corsica's economic fabric. The Territorial Collectivity has implemented several measures to strengthen cash support mechanisms and facilitate access to bank credit. In partnership with the Chamber of Commerce and Territorial Industry, the Corsican Collectivity will also participate in the financing of a scheme worth €120 million for companies registered in the Register of Trade and Companies. Special support is given to agricultural and fishing actors, and economic segments particularly affected by the crisis, such as the livestock sector.
3. The third strand prepares for the recovery of the Corsican economy and the **construction of a new post-crisis economic and social model**, particularly in the key sectors of the island economy. Special attention is paid to the tourism sector: the Tourism Agency of Corsica (ATC) has started a crisis exit strategy with the sector's socio-professionals. In 2020, €3.8 million will be spent on an exceptional communication campaign aimed at preserving the market shares of the Corsican destination. The Executive Adviser in charge of European Affairs and President of the Tourism Agency, announced that the ATC will launch "a commercial campaign to encourage transporters to make commercial gestures to users".¹⁰ In addition, tax measures will soon be put in place to ensure a quick opening without major losses. A crisis unit has been also set up specifically for tourism actors.

Source: CPMR (2020) <https://cpmr-islands.org/uncategorized/in-response-to-the-covid-19-crisis-corsica-is-deploying-exceptional-measures/5776/>.

The staged approaches to economic recovery in Corsica and Rotterdam highlight the importance of cooperation between different governmental levels, as well as between public and private actors. In Corsica (Box 5), this particularly includes the Chamber of Commerce and the Tourism Agency. The Rotterdam recovery plan relies on co-funding from higher-level policy responses. The municipality expects substantial investment support from the national government, the local private sector, housing corporations, public water authorities, the EU and knowledge institutions. Each of their responses to the crisis have been coordinated at an early stage, whereby areas of support are clearly demarcated (e.g. between Rotterdam and the South Holland province). The dedicated programme bureau of the NPRZ has played a fundamental role in managing stakeholder contacts and communicating local priorities to the municipality.

3.3 IMPLICATIONS FOR MUNICIPAL BUDGETS

The manifold support interventions in the health sector and socio-economic measures have led municipalities to make difficult trade-offs. On the one hand, the extra efforts to combat the crisis effects have generated higher costs. On the other, lower tax revenues, local fees and charges from the use of public services have resulted in reduced municipal income.

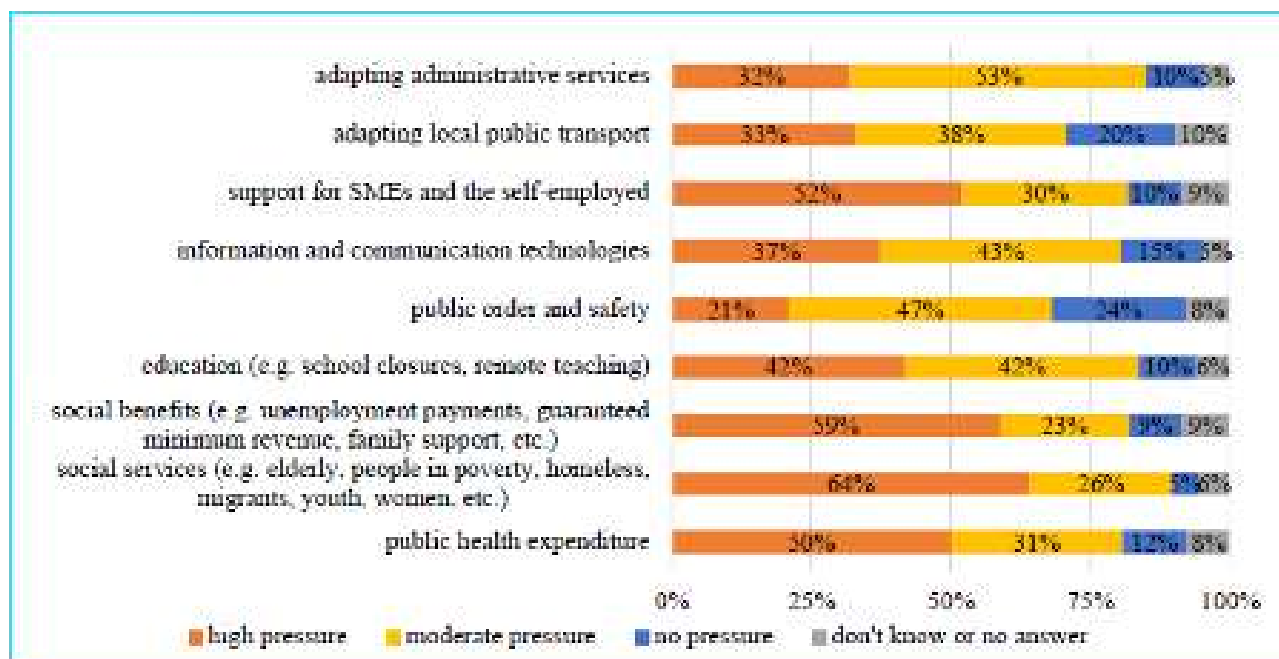
"The 'scissors effect' of rising costs and falling revenues has rapidly undermined the fiscal balance of [local and regional authorities], with uncertainty about the duration of the crisis and economic trend reinforcing the financial challenge."¹¹

¹⁰ Marie-Antoinette Maupertuis in an interview with Nice Matin, 11 March 2020.

¹¹ European Committee of the Regions (2020) Op. cit.

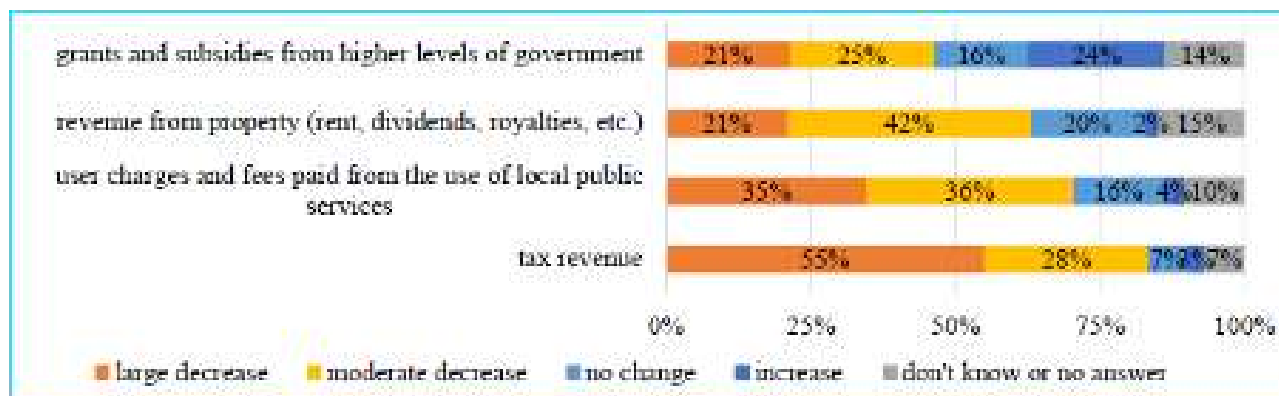
A survey done in the summer of 2020 shows that the provision of public services has put 'high' or 'moderate' pressure on many areas of expenditure of local and regional authorities (see Figure 4). On the income side, the impact of the crisis has led to a great extent of 'large' or 'moderate' decreases (see Figure 5). Also in the medium term, the bearing on sub-national finances is substantial and increases with levels of decentralisation. In highly decentralised contexts, over half of the respondents consider the medium-term impact 'high'.¹²

Figure 4: Pressure on areas of expenditure as expected by local and regional authorities



Source: European Committee of the Regions (2020) EU Annual Regional and Local Barometer. Brussels, 2 October 2020 [Figure 18].

Figure 5: Impact on areas of revenue as expected by local and regional authorities



Source: i.d. [Figure 19].

The municipalities examined in this study express serious concerns about their financial situation. They range from a decrease in revenue of tourist tax, to missed income from parking charges, to direct business aid and interventions in public space. In Cyprus, the large drop in tourist arrivals and revenue (-87.8% in the first half of 2020, see Box 4) is putting a serious strain on local authority budgets. Municipalities are estimating a reduction of no less than 30-35% in tourism revenues. Similarly, the local authority in Bastia expects a loss of €2.6 million. The specific impact of the decline of tourism is however difficult to estimate, as this is covered by the broader Community of the Agglomeration.

- Frankfurt an der Oder and Słubice are both witnessing a drop in trade, putting a strain on local authority budgets on both sides of the border.

¹² OECD (2020) The impact of the COVID-19 crisis on regional and local governments, Main findings from the joint CoR-OECD survey, https://www.oecd-ilibrary.org/urban-rural-and-regional-development/the-impact-of-the-covid-19-crisis-on-regional-and-local-governments_fb952497-en.

- In Corsica, municipalities have allowed restaurants to occupy the street without paying any fees. This would absorb a cost of €300,000 per year for Bastia alone.
- The temporal termination of car parking charges absorbed a cost of €80,000 per month in Bastia.
- In Rotterdam, the budgetary impact of the crisis has not been very problematic thus far. Yet, the municipal day-to-day income has been decreasing and the municipality has had to draw on financial reserves that were created following the recent sale of shares in an energy company (e.g. to co-finance recovery projects).
- Bastia has introduced a click and collect platform for retailers to reduce operational costs, and made investments in mouth masks and PPE.
- In Slovenia, municipalities are facing a combination of delayed tax collection, lower shares of income tax, furloughs of municipal workers, and other forms of municipal income (tourism tax, casinos, property sales) - all of which have put a strain on their financial balances (see Box 6).

BOX 6: PRESSURES ON MUNICIPAL BUDGETS IN SLOVENIA



Slovenian municipalities have delayed collection of some taxes (e.g. land taxes) which has had a significant impact on municipal budgets. Municipality budgets rely on shares of income tax and these will be significantly reduced, limiting the scope for municipality spending in the coming years. This will create substantial challenges for municipality-owned companies and for the provision of services (e.g. tourism, culture, sports). Municipality workers providing these services are currently on furlough and receiving 80% of their wages from municipalities. This again puts strong pressure on municipal budgets and debts are building up.

The national government has decided to raise municipal funding for 2020 and 2021, alleviating some of the burden for municipalities. Despite this, municipal debts are accumulating. In terms of business support and recovery, there are also challenges facing municipalities in ensuring balanced, tailored support. For example, municipalities have exempted tenants of municipal-owned office spaces from paying rent during lockdown periods.

Source: EPRC research

As shown in Figure 5, **some sub-national authorities may benefit from an increase in grants and subsidies from higher-level governments.** This is reflected in Slovenia (Box 6), whereas in the Netherlands, municipalities were also compensated for the loss of municipal income (tourist tax and parking revenue) and their additional tasks such as the implementation of emergency funds and organisation of education and healthcare measures. In May 2020, this increase was set at €566 million nation-wide, followed by a €777 million top-up in August.¹³ Other specific measures to reduce municipal budgetary constraints are the easing of co-financing requirements to national and/or EU-programmes. As part of the upcoming REACT-EU instrument, for instance, the West Netherlands ERDF MA has decided that projects in the urban ITIs (including Rotterdam) do not require municipal co-financing.

¹³ <https://www.rijksoverheid.nl/actueel/nieuws/2020/05/28/compensatie-coronacrisis-voor-gemeenten>

COHESION POLICY AND MUNICIPALITY RESPONSES TO COVID-19

EU funding plays an important role in supporting municipalities to respond to COVID-19. A survey carried out in June 2020 has shown that 13% of respondents from subnational governments had already applied for additional EU funds and 49% were considering doing so.¹⁴ The European Union has introduced several **initiatives that can support municipalities in their use of Cohesion Policy funding** to address challenges posed by COVID-19.

- **The Coronavirus Response Investment Initiative (CRII) and CRII+** allowed reprogramming to target investment on priorities related to the pandemic and introduced administrative and financial flexibilities.
- **Authorities appreciate REACT-EU funding and its bridging function between the two financial perspectives**, although its ultimate impact on programmes is still uncertain.
- Although not being provided through Cohesion Policy, the EU's new **Recovery and Resilience Facility (RRF)** will provide substantial new funding to respond to the crisis. Crucial challenges will be ensuring sufficient coherence of RRF with Cohesion Policy and other instruments and ensuring that national leadership in RRF does not reduce the role of sub-national levels and Cohesion Policy partnerships that include municipalities.

4.1 REPROGRAMMING AND FLEXIBILITY: CRII/CRII+

CRII and CRII+ has enabled Member States to set up fast and sizeable policy responses within the framework of Cohesion Policy that could cushion the negative impact of the crisis. The emphasis of CRII has been on ensuring liquidity to support healthcare systems and local economies, while Coronavirus Response Investment Initiative Plus (CRII+) introduced more flexibility to mobilise non-utilised ESI Funds in addressing the crisis. CRII/+ allows the transfer of resources between Structural Funds, between different categories of regions and providing flexibility in thematic concentration obligations. In addition, financial flexibility and liquidity measures were introduced, including the introduction of a 100% EU co-financing rate for the accounting year 2020-21. However, there was no change in the mode of management of this EU funding, meaning that Cohesion Policy continues to be managed by the MAs at regional and national level, who are in charge of re-prioritisation of how to spend the funds in most efficient way. Box 7 sets out the most frequently used flexibility measures as of July 2020:¹⁵

¹⁴ OECD (2020) Op. cit., p. 25.

¹⁵ Ustul K (2020) Member States' use of Flexibilities offered by CRII and CRII Plus for the 2014-2020 funds, 42nd EGESIF meeting, online meeting, 15 July 2020.

BOX 7: USE OF FLEXIBILITIES OFFERED BY CRII & CRII PLUS FOR THE 2014-20

- 100% EU co-financing rate;
- transfers of resources within priority axes of the same Fund and programme;
- transfers of resources between Funds (€2.2 billion ERDF/CF), categories of regions (€1.3 billion ERDF/CF) and priorities (€1.1 billion ERDF/CF);
- flexibility on Financial Instruments;
- flexibility on thematic concentration;
- extension of deadlines for project implementation and for project calls;
- simplification with respect to audit and to Financial Instruments ex-ante assessment; and
- moving some projects at initial stage of implementation to the next period.

Source: Uustal K (2020) MS use of Flexibilities offered by CRII and CRII Plus for the 2014-2020 funds, 42nd EGESIF meeting, online meeting, 15 July 2020.

The potential offered for reprogramming has thus far had limited impact for municipalities in programmes which were already largely committed. However, some modifications have been made, supporting local responses to the crisis.

- For example, in Rotterdam the remaining budget of the West OP was too limited to allocate resources to crisis-related measures. However, minor reallocations in the West OP introduced at the start of 2020 have focused on the need to match labour markets to innovation fields. This reorientation has been confirmed with the onset of the pandemic, especially in the disadvantaged urban areas where more people work in precarious sectors. The CRII regulations facilitated the transfer of c. €0.5 million to the labour market mismatch priority. This priority has a dedicated budget line in the Integrated Territorial Investment strategy being implemented in Rotterdam with direct participation of the municipality.
- Similarly in the case of Interreg V A Brandenburg-Poland 2014-20 OP, the scope to use the potential offered by CRII/+ to redirect funds was limited due to high commitment rates. Nevertheless, calls and projects have been modified. Existing projects have made use of the flexibilities introduced under CRII and CRII+ to adapt different components in an efficient way to respond to the crisis. The Frankfurt-Stubice cooperation centre, in conjunction with the OP MA adapted a project supporting 'neighbour language' learning between Polish and German children. This was changed to provide more support for digital infrastructure as the use of remote teaching increased.

Nevertheless, many Cohesion Policy programmes have made use of the newly introduced rules and increased flexibility to restructure their allocations. These modifications have reallocated funding to support a range of responses to the COVID-19 crisis, under three main headings: health, business support, and direct support for people. This has had an impact on municipality-responses to COVID-19.

Some programme authorities have made important funding reallocations to support health-related measures, supporting the work of municipalities under this heading. As of mid-November 2020, €6.1 billion had been reallocated for health measures, resulting in a net increase of €5.7 billion at EU level. After the adoption of CRII/CRII+ Regulations, programme modifications accelerated as new measures were made eligible for financing such as the purchase of PPE, medicines, testing, hiring of additional health personnel, medical assistance or home care services for vulnerable groups. This reprogramming has helped municipality-level responses to the crisis.

- In Corsica, for example, CRII/+ has proven valuable in allowing the transfer of funds in the Regional OP across priorities to support municipalities in purchasing and distributing masks and personal protective equipment (PPE).

Programmes have also been modified to increase support to business through local authorities. By mid-November, reallocations in business support involved €8.5 billion resulting in a net increase of €1.9 billion at EU level. This includes support for research and innovation, entrepreneurship, energy efficiency, access to

finance, digitalisation and more. Emphasis has usually been on providing working capital and other forms of support for SMEs in sectors most effected by the crisis. This includes financing working capital to ensure business continuity in sectors that have been especially affected by the pandemic, including culture, tourism and hospitality sectors. Although allocated by programme authorities at national or regional level, this has provided local authorities with additional funding to support businesses in their areas.

- In England, the ERDF MA is reprogramming funding to support local councils in efforts to ensure business survival and recovery. The Reopening High Streets Safely Fund is providing £50 million of residual ERDF to councils to support the safe reopening of high streets and other commercial areas (through action plans to reopen the local economy; communications and awareness raising activities; safety measures, etc.). The Kick-starting Tourism Package has a budget of £10 million will give small businesses in tourist destinations grants of up to £5,000 to help them adapt their businesses following the coronavirus pandemic.

Reprogramming has increased direct support for people by implementing employment retention schemes and supporting vulnerable groups. By mid-November 2020, €2.3 billion of funding had been allocated to support employment schemes and short-time work arrangements, to provide supplementary wage for health care personnel, IT equipment, services for vulnerable groups and other measures. Although ERDF has contributed to this support, the European Social Fund (ESF) has been the primary Fund involved. Box 8 sets out the main ESF measures undertaken as of July 2020.

BOX 8: MEMBER STATES' USE OF ESF IN CRII/+ FLEXIBILITIES (JULY 2020)

- **Short-time work schemes under ESF:**
 - 5 MS (CZ HR, LT, RO, SK) have used the ESF to roll out national schemes
 - 7 MS (BG, CY, HU, IT, LU, PL, SI): preparations ongoing
 - 5 MS (EL, ES, IE, MT, PT) are looking into it
 - 12 MS will not use the ESF for STWS
- **Health** (incl. mental health), healthcare systems, employment protection measures in 19 MS
- **Measures toward the most vulnerable:**
 - Homecare for p. w. disabilities and/or older people (BG, EE, IT, RO, SE, SI)
 - Homeless people (FI, FR, IT)
 - Vulnerable families (IT, LV)
 - Prevention and health for migrants and refugees (FR)
 - Support to victims of domestic violence (EL, SK)
 - Social workers and mediators working with Roma population (SK)
 - Art and culture online (HR)

Source: Doyen M (2020) MS' use of Flexibilities offered by CRII and CRII Plus for the 2014-2020 funds, 42nd EGESIF meeting, online meeting, 15 July 2020.

EU funds have been adjusted to extend or reorient the provision of social services by municipalities.

- For example, in Bulgaria, the European Social Fund was used to extend the scope of the service called "Patronage Care for adults" that aims at providing the most vulnerable groups with social and health workers in their homes. Thanks to the increased flexibility of Cohesion Policy under CRII/+, this service was extended to allow local authorities to deliver packages of essential goods (e.g. food, medicines) to the elderly people or to people under quarantine.¹⁶
- The Municipality of Turin with support from the ESF has launched the "Community concierge" to provide virtual and physical assistance to both vulnerable families and single people. With a budget of €1.285 million the service is financed by the National OP (PON Metro) which has run from November 2016 and will continue till December 2020. This initiative aims to address the issue of social isolation through activities such as: support to isolated people, notably to the elderly; cultural activities; digital support, distant learning; language classes; babysitting, home-schooling support for kindergarten and primary school pupils and psychological

¹⁶ EU countries make good use of the Coronavirus Response Investment Initiative. 29/07/2020, https://ec.europa.eu/regional_policy/en/newsroom/news/2020/07/29-07-2020-eu-countries-make-good-use-of-the-coronavirusresponse-investment-initiative

support. The proposed activities and services must be located in urban areas with high socio-economic problems of the City of Turin. Target areas are identified through indicators such as: job employment rate; level of education; housing conditions.¹⁷

Alongside reprogramming, CRII and CRII+ introduced measures to improve flexibility in cash flow and implementation to facilitate the use of Cohesion Policy programmes in their crisis responses. Key flexibilities have been taken up by programme authorities, facilitating municipalities access to funding as beneficiaries.

- Many projects have been **impacted by delays in implementation** and this is being addressed through: extending calls for applications, working to widen the possibility to finance working capital using existing resources; speeding up payments and increasing advance payments to beneficiaries; deferral of calls; deferral of repayments; delaying project control visits; introducing new methods of project delivery; and issuing advice to beneficiaries.¹⁸

Annual pre-financing and use of temporary 100 percent EU financing has benefitted municipalities in their use of EU funds.

- In Cyprus, local authorities have noted the value of accelerated transfer of EU funds. Under normal conditions, annual grants are transferred quarterly by the central government to local level. Due to the present conditions, the government had transferred a larger share of funding at an earlier stage, with the approval of the Ministers of Finance and Interior. Furthermore, the payment of a number of local authorities' financial debts towards the national government has been suspended for a period of six months. This flexibility has been crucial to the functioning of municipalities in Cyprus during the crisis, helping with liquidity at a time when resources were under significant pressure.
- In Corsica, CRII/+ has been very valuable in introducing flexibilities to extend project deadlines and ease access to funding. CRII/+ had to be adopted very quickly but it was very valuable in allowing 100% co-financing in a context where availability of co-financing was constrained. This helped programme authorities in coping with the crisis and supporting municipalities. At the municipal level, Bastia has not experienced problems with accessing the funds and project payments.

4.2 USING NEW FUNDING: REACT-EU AND THE RRF

CRII/CRII+ initiatives are being supplemented by the REACT-EU (Recovery Assistance for Cohesion and the Territories of Europe) package. In preparing for the next period, programme authorities and municipalities are also taking account of the EU Recovery and Resilience Facility (RRF), which makes €672.5 billion in loans and grants available to MS to support reforms and investments.

The REACT-EU (Recovery Assistance for Cohesion and the Territories of Europe) package (see Box 9) **will deliver €47.5 billion of additional funds made available to the ERDF and the ESF as well as to the European Fund for Aid to the Most Deprived (FEAD).** These additional funds will be provided in 2020-22 through a targeted revision to the 2014-2020 programming framework, topped up with resources from the Next Generation EU recovery plan. The additional resources made available by REACT-EU are to serve a twin purpose: to support measures related to repair in the context of the COVID-19 pandemic and a green, digital and resilient recovery from the crisis.

“Both the municipality and the ERDF MA see an important role for REACT-EU in the coming years as an additional source of funding.” — interview with City of Rotterdam.

¹⁷ ESF NEWS (October 2020) The Neighbourhood Concierge, <https://ec.europa.eu/esf/main.jsp?catId=67&langId=en&newsId=9801>

¹⁸ Michie R and Dozhdeva V (2020) When it rains it pours: programme management in a time of crisis. IQ-Net Review Paper 46(1), European Policies Research Centre Delft.

BOX 9: SUMMARY OF REACT-EU COMPONENTS

- **Total flexibility** for MS to **decide the share** of the resources for ERDF, ESF, YEI and FEAMD;
- no pre-determined breakdown by category of regions to direct the resources to **where they are most needed**;
- the possibility of **EU co-financing of investments up to 100%**;
- the **retroactive eligibility of expenditure** from 1 February 2020, encompassing both physically completed and fully implemented operations (provided that they have started as of 1 February 2020), in continuity with the CRII and CRII+;
- the **end date for the eligibility of expenditure on 31 December 2023**, in line with the 2014-20 legislative framework;
- the possibility to allocate resources also to existing **cross-border cooperation programmes** under ETC;
- the **allocation of 70% of the national envelopes in 2021 based on the socio-economic effects of the crisis**;
- **no breakdown by category of regions**. MS need to ensure a balanced support between the needs of the areas most affected by the impact of the COVID-19 pandemic and the need to maintain focus on less developed regions;
- **ex-ante conditionalities, thematic concentration requirements and performance framework do not apply to REACT-EU**. The Commission will do its utmost to approve programmes and programme amendments within 15 working days after submission.

Source: https://ec.europa.eu/commission/presscorner/detail/en/IP_20_2140.

In October, the European Commission set out the distribution of the financial envelopes for 2021 between Member States within the framework of REACT-EU. Preparations for REACT-EU are ongoing across Member States with authorities planning to allocate REACT-EU resources to existing Cohesion Policy programmes, mostly through the creation of new priorities. Responsibilities for allocation of funding lie at the national level.

- **Preparation for REACT-EU has generally involved cooperation with sub-national and Cohesion Policy stakeholders, including municipalities, but its ultimate impact remains to be seen.** Whereas subnational governments were quickly consulted about the use and flexible allocation of EU funds for immediate crisis responses, this was less the case for new features such as REACT-EU, the RRF and the post-2020 programme. In Cyprus municipalities have been asked to submit project proposals to be supported by REACT-EU and the National Recovery Programme but are awaiting feedback.
- **Nevertheless, some municipalities are well advanced in planning for the use of REACT-EU funding and envisage it playing an important role.** Both Rotterdam and the West OP MA see an important role for REACT-EU in the coming years as an additional source of funding. Rotterdam has developed a municipal recovery plan to act as a catalyst for public investments from higher levels, including the EU. At the moment, REACT-EU is the most concrete option for EU-funded policy responses, since 2014-20 resources were no longer available for COVID-related investments. The REACT-EU package in West Netherlands will invest in a green, digital and resilient economic recovery, with two action lines focusing on the societal transitions in the urban ITIs, including Rotterdam. The ITI framework will be used to distribute these funds in South Rotterdam and is expected to be in high demand due to the great impact of the crisis on education and entrants to the labour market (e.g. unfulfilled internships). The Rotterdam ITI is fully targeted at the southern part of the city. As part of the upcoming REACT-EU instrument, the ERDF MA has decided that projects in the urban ITIs do not require municipal co-financing (as in the regular OP), which alleviates the pressure on the municipal budget.

In total, the Next Generation EU recovery plan will provide up to €750 billion through a mix of grants and loans. At its heart is the **Recovery and Resilience Facility (RRF), making available €672.5 billion in loans and grants over the 2021-23 period.** The RRF will be implemented separately from Cohesion Policy and requires Member

States to draw up national recovery and resilience plans setting out a coherent package of reforms and public investment projects to be implemented. These plans should contribute to the green and digital transitions, and strengthen the growth potential, job creation and economic and social resilience of the MS.

- **Member States are at different stages in the preparation of national recovery and resilience plans. For municipalities, there are two key issues to consider.** The first is ensuring that national leadership on decision making in RRF does not reduce the overall role of sub-national levels in allocation and steering the funds. The second is ensuring sufficient coherence in use of RRF with Cohesion Policy and other instruments. The Rotterdam ITI has already developed a pipeline of potential projects in the healthcare, education, SMEs and start-ups, and digitalisation domains (e.g. bringing together tech companies and colleges). However, the development of a National Recovery Plan is not scheduled until after elections in March 2021.

LESSONS AND RECOMMENDATIONS

As municipalities look to make full use of the opportunities offered by Cohesion Policy in addressing the impact of the pandemic, important lessons and recommendations for the future are emerging.

5.1 THE ROLE OF COHESION POLICY IN THE SHORT AND MEDIUM TERM

Support from the European Union, including EU Cohesion Policy funding, is playing an important role in helping municipalities respond to the COVID-19 crisis in addressing immediate, medium- and longer-term challenges.

- **The additional funding and administrative flexibilities introduced in CRII and CRII+ are helping in immediate response to the crisis.** Cohesion Policy funds have been reallocated into the health and social care sectors and to support businesses and employment. Critical to the success of current and future initiatives is the ability of local authorities to access and spend the Cohesion Policy resources in a timely and efficient manner and programme authorities have used the CRII/+ flexibilities to address the impact on Cohesion projects and beneficiaries, including municipalities.
- **REACT-EU funding will provide a potentially valuable funding over the next two years but there will be absorption challenges.** Over the next two years, the REACT-EU package makes available €47.5 billion of additional funds to the ERDF and the ESF as well as to the European Fund for Aid to the Most Deprived (FEAD), representing a potentially significant resource for municipality recovery plans. However, the flexibilities introduced under CRII/+ will continue to be crucial for municipalities and other beneficiaries to absorb the extra resources before the end of 2023.
- **In the longer term, planning is well underway for the 2021-27 Cohesion Policy programme period and the European Commission has proposed some changes that potentially will strengthen the role of local authorities.** The future 'Policy Objective 5' (EU closer to citizens) gives increased visibility to the local dimension that includes a specific objective for integrated territorial development targeting different territories. MS have flexibility to programme their own models of integrated territorial investments under this, as long as they meet minimum requirements of having strategies based on cross-sectoral, multi-stakeholder approaches and involvement of municipalities in drawing up strategies and selecting projects. Related to this, the minimum 'earmarking' of ERDF to Integrated Sustainable Urban Development (ISUD) Strategies is proposed to be set at 8% in the next period.¹⁹ Alongside these regulatory proposals, the Commission is preparing support and guidance for ISUD implementation. The Commission proposes a new EU Urban Initiative, with funding of €500 million to support capacity-building, innovative actions and knowledge exchange at the local level.

5.2 THE NEED FOR VERTICAL AND HORIZONTAL COORDINATION

The pandemic has demonstrated the importance of coordination at national, regional and local levels and cooperation across municipalities in order to minimise fragmented or disjointed policy responses. This applies to the use of EU resources, where it is important to exploit synergies and avoid fragmentation and competition

¹⁹ As per the political agreement on the Common Provisions Regulation of December 2020 (https://ec.europa.eu/regional_policy/en/newsroom/news/2020/12/12-08-2020-political-agreement-on-the-european-regional-development-fund-and-the-cohesion-fund).

for EU resources. A sound institutional structure and capacity at the local level facilitates the implementation of the ESIF for anti-crisis measures. Both past experience and a clear delineation of roles of different administrative authorities are shown by the case study contributed to successful interventions.

“In all of these cases, important adaptations to projects were made in a timely and efficient way and this was due in large part to the close coordination and working ties horizontally between an der Oder and Słubice and vertically between the municipalities and OP managing authority.” — interview Frankfurt an der Oder.

A key risk is of vertical coordination failure in crisis management and a disjointed response across levels of government. It is understandable that national authorities have taken the lead in responding to the pandemic. Nevertheless, interventions directed from the national level alone are often insufficient, particularly given the proximity of local authorities to immediate impacts and emerging needs ‘on the ground’. Successful use of EU funding has been associated with quick multi-level responses in the first half of 2020, with active participation in meeting structures between municipalities, regional MAs, ministries and the EC. In Rotterdam, Corsica and Frankfurt-Słubice, the good relationship between programme authorities and municipalities has been important in ensuring the efficient use of EU funding. Quick responses were often reliant on established governance models and links between levels that were able to be activated quickly and efficiently with the outbreak of the pandemic.

In addition to vertical coordination, the value of horizontal coordination across municipalities has been demonstrated. This clearly applies to municipalities in cross-border settings where the closure of national borders underlined the challenges of implementing coordinated Cohesion Policy projects in different institutional and regulatory settings on either side of the border but also their importance in a crisis context. However, horizontal coordination is also crucial as municipalities develop coherent measures responding to a common challenge. Coordinated approaches in accessing and using EU funding through inter-municipal structures pools resources and builds capacity. This is particularly important for smaller municipalities that lack capacity and experience in accessing EU funds. In Frankfurt an der Oder and Słubice, close coordination is not only important vertically between the municipal level and the OP MA, but also horizontally across the border. The two cities have established strong cooperation over the past 20-30 years that has been vital in responding to the crisis (see Box 10).

BOX 10: COOPERATION BETWEEN FRANKFURT AN DER ODER AND SŁUBICE

The Frankfurt-Słubice Cooperation Centre plays a key role in the cooperation between the two cities. Established in 2011 as part of the Interreg project “Intercommunal cooperation in the European twin cities”, the cooperation centre is a joint office of the Frankfurt and Słubice city administrations. The employees work in the city administrations on both sides of the Oder and meet regularly. Its aim is to facilitate cooperation at the administrative level between the two cities and implement joint, innovative projects in various cooperation areas for the benefit of both sides. Frankfurt and Słubice also cooperate with each other under the common structure of Euroregion Pro Europa Viadrina. There are also strong working ties with the Interreg programme Joint Secretariat, which is based in Frankfurt in the same building. This strong vertical and horizontal coordination has facilitated quick and efficient adaptation of measures to address COVID-19.

Source: EPRC research.



5.3 THE TERRITORIAL DIMENSION AND 'BOTTOM UP' CONTRIBUTIONS

The need for active participation of municipalities in Cohesion Policy design and delivery has been underlined by the crisis. Municipalities are well positioned to inform the needs that Cohesion Policy should address 'on the ground'. The value of this proximity to emerging needs has been demonstrated in the swiftly changing context of the COVID-19 crisis as municipalities provided some of the first responses:

“The cities, we are the atoms in this whole organism of the EU. We are witness to the changes needed on a daily basis.”
— Mario Rajn, mayor of Križevci (Croatia)²⁰

- **A strategic role for local authorities brings Cohesion Policy closer to the people.** As noted above, the EC has set out proposals that aim to strengthen the role of municipalities in the 2021-27 period. Local-level involvement in Cohesion Policy should go beyond being recipients or beneficiaries of funding, and include strategic inputs in design and key roles in implementation. Embedding the local level as an active participant strengthens the 'bottom up' dynamic in Cohesion Policy and its territorial dimension. Giving local authorities and their partners a more prominent role and stake in the process brings EU investment closer to the people.

However, there are concerns about the suitability of some features of the EU recovery package in terms of access for municipalities. There is a need to involve the local level in the preparation, in particular, of future Cohesion Policy and the RRF, alongside national and regional authorities. There are concerns at the local level about insufficient coherence across the new EU instruments and with Cohesion Policy, owing to the different objectives and allocation methods of the instruments, uncertainty about the links with wider green and digital agendas and the European semester, and the absence of a strong territorial dimension to REACT-EU and the Recovery and Resilience Facility. It is unclear how the territorial dimension will be applied given that the allocations are national, and there is flexibility to channel the funding through a dedicated (national) programme. In terms of the Recovery & Resilience Facility, the exclusive focus on national measures and the absence of a clear role for regional or local authorities has been criticised by territorial stakeholders.²¹

5.4 ENSURING SUFFICIENT CAPACITY IS IN PLACE AT THE LOCAL LEVEL

In order to play an active role in Cohesion Policy municipalities require sufficient capacity. Making use of CRII/CRII+, REACT-EU and Cohesion Policy funding in 2021-27 is likely to test the administrative capacity of some municipal authorities. Capacity deficits can exist in a range of areas including: lack of skills, knowledge, experience or competences; lack of resource access for the collection, analysis and use of necessary data and information required for effective strategy design and implementation; lack of vertical or horizontal coordination; and lack of personnel or financial resources. A range of options are available to build capacity:

- **In some cases, capacity building concerns the strengthening of human resources** to address shortages of qualified and experienced staff (see Box 11, including in terms of engagement with Cohesion policy. There are examples where the use of EU Technical Assistance has strengthen human resources to access EU funds in municipalities.²²

Inter-municipal cooperation can strengthen municipal capacity to participate strategically in Cohesion Policy. The EU is supporting the exploration of functional spaces, to address issues that traverse municipal boundaries. Processes of climate change, demographic shifts and technological progress create complex effects across administrative borders and COVID-19 has had similar impacts. This emphasises the value of cross-border and inter-municipal co-operation, associations of municipalities and integrated territorial investments.

²⁰ 'Mayor: Cities are the atoms in the organism of the EU', Euractiv 25 September 2020.

²¹ Bachtler J, Mendez C and Wishlade F (2020) The Recovery Plan for Europe and Cohesion Policy: An Initial Assessment, European Regional Policy Research Consortium Paper 20/1, European Policies Research Centre, Glasgow and Delft.

²² Polverari L, Bachtler J, Ferry M, Mendez C and Ogilvie J (2020) The Use of Technical Assistance for Administrative Capacity Building During the 2014-2020 Period, Final Report to the European Commission (DG Regio), European Policies Research Centre, University of Strathclyde, Glasgow.

BOX 11: CAPACITY BUILDING IN CYPRUS



The Centre of Expertise for Local Government Reform of the Council of Europe provides capacity-building programmes as well as policy and legal advice to local, regional and national authorities, in order to support on-going processes of reform of public administration and local government. In Cyprus, the Centre of Expertise, in cooperation with the Ministry of Interior, associations of local authorities, and the Cyprus Academy of Public Administration (CAPA) is supporting implementation of the National Training Strategy for Local Authorities. The first training, which took place in January 2020, focused on civil participation in the decision-making process. The second training was devoted to Human Resources Management. The next session in March will provide training on Performance Management.

Source: Council of Europe (2020) <https://www.coe.int/en/web/good-governance/cyprus>.

- **Involvement in networks or platforms** for knowledge exchange. This approach provides opportunities to exchange experiences and a forum for discussing problems, solutions, good practice, for strengthening coordination and coherence.
- **There is also a need to take full advantage of the opportunities offered by Cohesion Policy to support digitalisation**, including e-cohesion to ease administrative burden on local authorities.

5.5 THE ROLE OF EU-LEVEL INSTITUTIONS

EU institutions have a key role in mobilising municipalities to play an active role in Cohesion Policy design and delivery. Processes of administrative capacity and institution building promoted by the EC at the subnational level have gradually empowered sub-national actors to take responsibility for the planning and management of EU investments. These should be continued and extended at the local level.

“There is always a danger that the use of EU funds is perceived from a national perspective and the response to COVID-19 could strengthen this. The European Commission, European Parliament and others have an important part to play in raising awareness of the role of municipalities not just as beneficiaries but as active participants in the steering of EU investment.” — interview Frankfurt an der Oder.

A key lesson is the important role of EU-level institutions in raising awareness to strengthen engagement of municipalities in EU funding. As noted above, there is always a danger that the use of EU funds is perceived from a national perspective and the response to COVID-19 could strengthen this. In this context the European Commission, European Parliament and others have an important part to play in raising awareness of the role of municipalities in steering of EU investment.

Regulatory complexity is a challenge for Cohesion Policy implementation and this is often most obvious in the implementation of projects ‘on the ground’ in a time of crisis. Meeting regulatory requirements (e.g. in terms of eligibility, public procurement processes) on a project-by-project basis often makes it challenging for local authorities to access EU funds in the most beneficial way. According to a Greek mayor interviewed as part of a 2020 OECD report: “it is as if we have been given a suit to wear with all of the wrong measurements”.²³ This challenge is exacerbated in a time of crisis. The EU’s anti-COVID-19 package has sought to reduce this complexity, although municipalities have continued to experience some administrative burdens in dealing with regulation, including those introduced to improve flexibility. Incorporating the new rules into the existing management and implementation system was complicated and it took additional time and capacity to get

²³ OECD (2020), Regional Policy for Greece Post-2020, OECD Territorial Reviews, OECD Publishing, Paris.

these anti-COVID-19 instruments to work and to realise their full potential. Nevertheless, the flexibilities introduced in EU responses to COVID-19 are valued in programme authorities and municipalities. Indeed, for some they have demonstrated the potential for increased flexibility to provide responses to some of the broader challenges associated with Cohesion Policy implementation. Although reaching agreement on regulatory change among different stakeholders at EU and Member State levels would inevitably be problematic, there are areas that merit specific attention (e.g. in terms of state aid requirements, public procurement, eligibility under different funds).

5.6 BUILDING ON EXPERIENCES GAINED BY MUNICIPALITIES

Several structures and instruments are already in place to facilitate the direct steering of Cohesion Policy investment by municipalities and these should be built upon.²⁴ There is scope to increase Cohesion Policy support that the local level can use flexibility, with autonomy to tailor support to their own contexts. Several examples of this can be highlighted:

- Where **municipalities are involved as Intermediate Bodies** for Cohesion Policy OPs they have direct involvement in the generation, selection and implementation of EU-funded projects, increasing their scope to respond to changing needs at the local level (e.g. Turin municipality is Intermediate Body for the OP 'Metropolitan Cities').
- The **involvement of municipal authorities in Cohesion Policy territorial instruments** (Integrated Territorial Investments, Sustainable Urban Development Strategies and Community-led Local Development) in the 2014-20 period has been significant. These instruments have played an important role in incentivising strategic cooperation and policy innovation at the local level (see Boxes 12 and 13). This can be particularly important in strengthening the joint participation of smaller municipalities that have limited capacity and experience of accessing EU funds with larger urban centres.²⁵

*“The ITI-based network of municipalities has provided a valuable platform for inter-municipal cooperation and coordination and this has been underlined in responses to the pandemic.”
— interview with Association of City Municipalities of Slovenia.*

BOX 12: CLLD SAFEGUARDING URBAN GREEN SPACES IN THE HAGUE - GREENS IN THE PARK

EU-supported Community-led Local Development (CLLD) is being used to bring community members together to transform derelict land in the neighbourhood of Scheveningen in The Hague. The CLLD supports small local oriented projects, including the Greens in the Park project. This involves the local government, neighbourhood and commercial partners working together to revitalise derelict land, creating a better environment with vegetable gardens. The gardens are maintained by the Green Gardens Foundation, which supervises volunteers and people with disabilities. They work alongside a team of 20 who produce organic vegetables and fruit for an on-site restaurant.

Source: <https://www.greensinthepark.nl/>.



²⁴ See EU Territorial Agenda 2030: Implementing the Territorial Agenda 2030 - Examples for a territorial approach in policy design and delivery, https://www.territorialagenda.eu/files/agenda_theme/agenda_data/Implementation%20Actions/TerritorialAgenda_OngoingExamples_201109.pdf

²⁵ Ferry M (2020) Are Member States making the most of Cohesion Policy support for sustainable urban development? EoRPA blog 07/05/2020, <https://www.eprc-strath.eu/eorpa/eprc-strath.eu/News-and-events/news/News-3137.html>.

BOX 13: FOCUSING ON THE FUNCTIONAL URBAN AREA – ITI IN METROPOLITAN AREAS IN BRNO (CZECHIA)



A basic challenge to territorial planning in the Czech context has been the fragmented pattern of public administration boundaries, particularly at the local level (the country has 6,258 municipalities). The introduction of the Cohesion Policy Integrated Territorial Investment (ITI) instrument has provided a new impulse for mutual collaboration. The ITI strategy has enabled the creation of new partnerships at mezzo-regional level. In order to formally confirm the cooperation under ITI, a memorandum on co-operation was signed between Brno City, the South Moravian Region and the five largest municipalities in the metropolitan area. The Integrated Strategy defines the metropolitan area according to key indicators such as commuting patterns, education, migration, transport and accessibility. As well as providing a metropolitan framework for the implementation of EU-funded ITI projects in 2014-20, it is anticipated that this framework will provide the basis for the future cooperation and coordination between the municipalities and the regional authorities on key metropolitan development issues.

Source: <https://metropolitni.brno.cz/en/basic-information/integrated-development-strategy-of-the-brno-metropolitan-area/>.

There are instruments in place to address the specific challenges facing municipalities in using EU funds for cooperation activities in cross-border contexts. Cross-border municipal structures and links have facilitated the development and management of territorial cooperation activities that have proven valuable in the challenging context of the pandemic. In this context, the European Grouping of Territorial Cooperation (EGTC) legal instrument provides a stable structure for municipalities to cooperate, as part of multi-level governance systems, complements funding instruments for European Territorial Cooperation and EU Interreg programmes (Box 14). The benefits of this approach have been emphasised in the cross-border municipalities of Frankfurt-Słubice: strengthening the strategic approach for integrating several actions under the framework of mutual policy; consolidating these cooperation structures and continuity of actions; providing legally binding decisions to support long-term engagement of the partners; easier access to tendering and acquisition procedures; improved possibility to participate in EU programmes as a single entity.

BOX 14: INTERREG SUPPORTING INTEGRATED TERRITORIAL INVESTMENT AT THE ITALIAN-SLOVENIAN BORDER



The Interreg OP Italy-Slovenia applies the Integrated Territorial Investment approach to develop an integrated cross-border strategy for the twin cities of Nova Gorica – Gorizia – Šempeter Vrtojba, which are also acting as a European Grouping for Territorial Cooperation (EGTC). The ITI tool allows delivering a long-term territorial strategy aimed at facing common social and economic challenges for a well-defined geographical area that spans national borders. The ITI strategy includes 2 pilot projects from different priority axes of the Interreg OP. The first aims at supporting the river Isonzo/Soča through sustainable tourism, environmental protection and green growth. The project develops an integrated cross-border network of cycling and walking paths to establish the first urban cross-border park. The second builds a network of integrated services providing a joint use of the healthcare services in the EGTC area. The project supports a new IT network, providing the opportunity for a wider range of healthcare services at cross-border level, a benefit that is underlined by the current COVID crisis.

Source: <https://euro-go.eu/en/programmi-e-progetti/progetti-iti/>.

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