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BEYOND AD-HOC RESPONSES: STRENGTHENING THE EU'S FISCAL CAPACITY FOR SECURITY AND CLIMATE

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REGROUP
REBUILDING GOVERNANCE AND RESILIENCE OUT OF THE PANDEMIC

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REGROUP

REBUILDING GOVERNANCE AND RESILIENCE OUT OF THE PANDEMIC

Culminating more than a decade of crisis in Europe, the Covid-19 pandemic has opened an important window of opportunity for institutional and policy change, not only at the “reactive” level of emergency responses, but also to tackle more broadly the many socio-political challenges caused or exacerbated by Covid-19. Building on this premise, the Horizon Europe project REGROUP (*Rebuilding governance and resilience out of the pandemic*) aims to: 1) provide the European Union with a body of actionable advice on how to rebuild post-pandemic governance and public policies in an effective and democratic way; anchored to 2) a map of the socio-political dynamics and consequences of Covid-19; and 3) an empirically-informed normative evaluation of the pandemic.

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Executive summary

Given an increasingly volatile geopolitical landscape and growing climate-related risks, this paper argues for strengthening the EU's fiscal capacity for crisis prevention, preparedness and response, focusing on two fields: security and defence on one hand and natural catastrophes on the other.

The analysis highlights lessons from responses to COVID-19, including not only the benefits of joint financial instruments (e.g. NextGenerationEU and SURE) but also their shortcomings, such as their temporary nature, weak alignment with long-term resilience, and inadequate parliamentary oversight. The current EU budget framework remains rigid, prioritising mid-term investment while offering limited flexibility for emergency responses.

To address these shortcomings, the paper advocates for systematically integrating crisis preparedness and readiness considerations into EU budget and scaling up investments in defence and security, as well as in natural disaster prevention and response. Defence funding remains inadequate and fragmented, with insufficient EU-level contributions despite escalating security threats. Apart from repurposing cohesion funding towards security goals and better leveraging the spending power of national promotional banks, the paper proposes a permanent off-budget solution for defence financing to build a new European Security Funding Facility (ESeFF). Similarly, EU disaster relief funding is under-resourced. The EU Solidarity Fund and Civil Protection Mechanism require significant expansion, along with stronger incentives for climate adaptation. The introduction of a public-private climate catastrophe reinsurance scheme could help mitigate financial risks.

Keywords: resilience; preparedness; defence; natural disasters; strategic investments; EU budget

Introduction

In 2020, the Union responded to the COVID-19 pandemic by establishing two temporary off-budget instruments – the NextGenerationEU programme (NGEU) and the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) programme – to raise funds through financial markets to provide extraordinary financial assistance to member states. In addition, the Union mobilised EU budget resources to support the joint procurement of COVID-19 vaccines[1] and adopted the CRII and CRII+ initiatives,[2] allowing member states to re-allocate EU cohesion policy funds to support affected firms and individuals. Two years later, the Union once again relied on the reallocation of EU cohesion policy funds to address the consequences of Russia's invasion of Ukraine through the CARE, FAST CARE, and SAFE initiatives.[3]

Today, several factors – particularly a more confrontational and volatile geopolitical landscape and the increasing frequency and severity of climate-related disasters – are significantly heightening the likelihood of new shocks and emergencies that require an EU-level response. Against this backdrop, continued reliance on ad hoc and short-term budgetary responses to address the consequences of crises appears inadequate. There is need to endow the EU with greater fiscal capacity to anticipate, prevent, and respond to major emergencies and shocks.

This paper advocates for a more systematic integration of crisis preparedness into the EU's financial framework and proposes a set of basic principles to guide this process, drawing on lessons from the EU's fiscal response to COVID-19. As highlighted in the Niniistö Report (European Commission, 2024b), the various risks and threats currently facing the EU are interconnected, requiring a whole-of-government approach to address them. At the same time, however, there is an acute need for the strengthening of preparedness and resilience concerning two specific categories of risks: security risks stemming from an increasingly unstable geopolitical environment, and climate risks resulting from more frequent and severe extreme weather events. In light of these challenges, the paper explores potential options to scale up EU defence investment and enhance the EU's capacity to prevent and react to natural disasters. The analysis takes

1. To respond to COVID-19, the Commission signed Advance Purchase Agreements (APAs) with various COVID-19 vaccine manufacturers. APAs provided financial support to develop the vaccines in exchange of member states' right to buy a number of vaccine doses at a given time and price. The APAs were financed by €2.15 billion from the Emergency Support Instrument (ESI), an EU instrument that enables the Commission to mobilise EU budget margins to provide emergency support in response to large and exceptional circumstances.
2. CRII (Coronavirus Response Investment Initiative) and CRII+ introduced a series of simplifications and flexibilities to the EU cohesion policy regulations, allowing member states to use EU cohesion policy funds to finance various short-term relief actions in response to the COVID-19 crisis.
3. CARE (Cohesion's Action for Refugees in Europe) and FAST CARE amended the EU cohesion policy rules to allow member states provide emergency support to people fleeing from Russia's invasion of Ukraine. The Supporting Affordable Energy (SAFE) measures allowed member states to use cohesion funds to support SMEs and vulnerable households facing high energy costs.

a pragmatic approach: rather than proposing idealised, first-best solutions with little political feasibility in the current context, the paper explores realistic ways to address these two risks by recalibrating or enhancing the EU's existing off-budget and on-budget instruments.

Lessons learnt from the EU's fiscal response to COVID-19

The EU's fiscal response to the COVID-19 pandemic has been widely praised. The joint procurement of COVID-19 vaccines exemplified a new strategic way of using EU funds, leveraging collective bargaining power to secure access to critical goods under acute conditions. The creation of NGEU introduced a groundbreaking approach by allowing the EU to raise common debt for the first time to finance crisis response and recovery efforts. The SURE programme also proved effective, offering loans with favourable conditions for member states to set up or expand short-term work schemes. The exceptional flexibilities introduced by CRII and CRII+ were also highly appreciated by cohesion managing authorities. Overall, the EU demonstrated a formidable capacity to find new and imaginative solutions to address the consequences of the crisis. At the same time, in hindsight, the EU´s response to COVID-19 was hampered by some limitations in terms of design and control.

First, all the newly created instruments were temporary and COVID-specific. The EU's joint procurement of COVID-19 vaccines was an 'ad hoc' collaboration effort. The proceeds from the NGEU have to be fully used by the end of 2026 and 'for the sole purpose of addressing the consequences of the COVID-19 crisis' (Art. 5.1 Own Resource Decision). While this requirement has been interpreted broadly – allowing national Recovery and Resilience Plans (RRF plans) to be amended to address the consequences of Russia's invasion of Ukraine – the plans' primary objective remained supporting the post-COVID recovery. The SURE programme was also a temporary programme which ended in 2022. Its focus on supporting short-time work schemes proved to be very effective in addressing the consequences of the pandemic's lockdowns but was irrelevant in addressing the consequences of Ukraine's war. As for the CRII and CRII+ flexibilities introduced in the EU cohesion policy, these were also COVID-specific. In 2022, the Commission had to propose new 'ad hoc' flexibilities to allow member states to address the influx of Ukrainian refugees.

Second, the EU's fiscal response to COVID-19 was primarily driven by short-term crisis management objectives – slowing virus transmission and stabilising financial markets – rather than building structural preparedness and resilience to future crises. On paper, the Recovery and Resilience Facility (RRF) – the centrepiece of NGEU – sought to combine immediate fiscal support with longer-term public investment and reform efforts aimed at enhancing member states' resilience (Caramani and Cicchi 2024). However, the RRF Regulation defines resilience in broad and vague terms, leaving it largely up to member states to determine how to strengthen it. In practice, the European Commission has acknowledged that the RRF's contribution to resilience is mostly indirect, stemming from some investments to reinforce healthcare systems and reforms that modernise public administrations and strengthen public governance (European Commission, 2024a).

Moreover, there is no clear mechanism to ensure alignment between short-term crisis relief measures and long-term objectives under either the RRF or REACT-EU[4] (another programme financed under NGEU). For instance, many countries have used REACT-EU funds to provide support to firms that struggled during the COVID crisis. However, this assistance has been subject to minimal conditionality, often lacking coherence with climate or social long-term objectives pursued through the national RRF plan. In some countries, a significant portion of RRF funds has been allocated to projects that would have been funded nationally, thereby questioning the additionality of these investments (Corti et al. 2021).

Finally, the urgency and scale of the EU's pandemic response meant that many programmes were designed and deployed at speed, exposing shortcomings in control, accountability, and transparency.

The NGEU was established under Article 122 TFEU, excluding the European Parliament in the decision-making process. The Court of Justice has also highlighted that Parliament was inadequately informed during negotiations for the COVID-19 vaccine agreements with major pharmaceutical companies. The RRF is primarily managed by the European Commission and national governments, limiting the oversight capacity of legislatures or external bodies in monitoring EU fund usage (Sanchez-Barrueco 2023). The introduction of extraordinary crisis flexibilities in EU cohesion policy also led to insufficient monitoring and difficulties in tracking performance (Rubio and Alcidi 2024). The combination of light control mechanisms and limited reporting obligations increases the risk of fraud, misuse, and misallocation of EU funds. Moreover, it is essential to establish robust safeguards to ensure that EU funds flow only to recipients who respect EU values and adhere to key principles, such as the rule on law and security commitments.

4. REACT EU refers to 'Recovery Assistance for Cohesion and the Territories of Europe'. This was a temporary programme financed by NGEU proceeds which provided extra EU cohesion policy funds to member states during 2020-2022 to support COVID-19 crisis response measures.

Integrating crisis preparedness considerations in the EU budget framework

Since the COVID-19 crisis, there has been growing awareness of the need to strengthen the EU´s strategic crisis management capacities (Lausberg et al. 2024). Different pieces of legislation have been adopted, and new mechanisms and tools have been created to strengthen the Union´s readiness to face new emergencies – such as the Health Emergency Preparedness and Response Authority (HERA) and the Single Market Emergency Instrument (SMEI). Today, in fact, the EU is better able to deal with major crises and disasters than it was in 2020 (European Commission 2022).

However, the EU budget has been largely excluded from these crisis preparedness efforts. Overall, the core of the EU budget framework continues to be a small and highly rigid common budget which provides support to long-term investments, with very little flexibility to respond to shocks. The example of HERA is illustrative: HERA was supposed to be a new, independent, and more agile EU agency endowed with capacities to prevent and monitor health risks and set up coordinated responses to cross-border health emergencies. The Commission initially proposed a dedicated budget of €6 billion for HERA from 2022 to 2027. However, in the end, HERA was not established as an independent agency but as a 'mechanism' governed by a Directorate-General of the European Commission (DG Health). This means that HERA does not have dedicated funding and instead relies on resources from existing health programmes. As noted by some experts, this can limit the ability of HERA to undertake rapid decision-making during crises (Wouters et al. 2023).

There is a need to more systematically integrate crisis preparedness and readiness considerations in the EU budget. This requires action along three key horizontal fronts. First, as recommended in the Niniistö Report (European Commission 2024b), all major investments financed through the EU budget – particularly those under the Cohesion Funds – should, from the outset, embed stronger provisions for risk management, disaster-proofing, climate resilience, and crisis preparedness. Second, a greater share of EU funding should be directed towards critical crisis-preparedness investments, particularly in areas such as security and defence as well as climate adaptation. Third, there is a need to strengthen existing flexibility instruments or develop new crisis management tools, such as dedicated crisis reserves or permanent flexibility clauses, equipping the Union with the capacity to rapidly scale up its financial response when confronted with major shocks.

Today, the clearest example of a key crisis preparedness investment that is insufficiently prioritised at the EU level is defence. Despite the sharp deterioration of Europe's security environment following Russia's full-scale invasion of Ukraine in 2022, the EU budget allocates only a minimal share to security and defence-related expenditures. In the coming years, the need to strengthen Europe's security must be reflected in EU budgetary choices. Given the legal and political constraints on expanding defence spending within the EU budget, it will be necessary to explore alternative off-budget mechanisms to scale up Europe's defence investments.

Another area that requires further attention is the prevention of and response to major natural catastrophes. Europe is the fastest-warming continent in the world, and climate-related disasters such as wildfires and floods are becoming more frequent and intense. While the EU budget counts on some dedicated funds – such as the EU Civil Protection Mechanism or the EU Solidarity Fund – to react to these events, they appear insufficient to address the scale and complexity of new climate-related emergencies. More can be done to prevent and reduce the negative consequences of such disasters. The current EU budget devotes roughly one-third of expenditure to climate-related action, but most of it is for climate mitigation rather than climate adaptation projects.

When discussing ways of scaling up the EU´s defence investment or improving the EU´s fiscal response to natural disasters, it is important to draw lessons from the experience with the EU's financial response to the COVID-19 crisis. To start with, it makes no sense to build up temporary instruments. Europe needs to reinforce its defence capacities permanently, and climate risks will not disappear but rather intensify over time.

Another important lesson is the need to ensure coherence between short-term goals and longer-term resilience considerations. While Europe needs to increase its military capacity in a short time, this has to be done in a way that reinforces Europe's defence industry in the long term and ultimately secures the Union´s defence capacities on a permanent basis. Likewise, the EU's emergency funding mechanisms should be adapted to the increasing number and severity of climate catastrophes. However, the EU support should be conditioned to climate adaptation investments aimed at mitigating the negative consequences of future catastrophes.

Finally, it is essential to give utmost attention to control and accountability issues. On one hand, the new EU-level off-budget instrument must ensure appropriate parliamentary involvement – if not in the decision-making process, at least in the oversight of fund allocation and usage. On the other hand, when EU funds are deployed in response to emergencies, it is crucial to strike a careful balance between the flexibility needed for swift response and control over the use of funds. Clear rules should also be established to define when EU funds can be rapidly reallocated in emergencies. The overuse of emergency clauses by U.S. President Donald Trump to bypass congressional oversight exemplifies the risks of leaving the definition of an 'emergency' solely to the executive.

Options to scale up Europe's defence investment

The EU finds itself in a precarious security situation which continues to escalate at the time of writing. Russia's invasion of Ukraine poses a direct threat that has become even more immediate with Donald Trump's interruption of US military aid to Kyiv. With breathtaking speed, the American president is dismantling the transatlantic alliance, thus calling US military engagement in Europe into question and leaving the EU more exposed than ever. While Russia and other powers are ramping up their military production, the EU faces massive capability gaps in areas ranging from ammunition to precision-strike weapons and has thus been unable to sufficiently support Ukraine. Moreover, the EU defence industry is struggling to keep up with rapid technological updates on the Ukrainian battlefields, for example, drones.

In early March 2025, Commission President von der Leyen proposed the 'ReArm Europe' plan, which aims to mobilise up to €800 billion over the next four years to bolster European defence capabilities (von der Leyen 2025). To achieve this, there must be more private investment. However, public financing will remain essential in boosting the EU's defence capabilities, as demand will always be driven by governments. While the bulk will have to come from member states,[5] there is a strong case for a more important role for the EU in defence funding. Defence and security are European public goods that can only be achieved if all member states are secure, not least given EU and NATO provisions for mutual defence. Defence spending on the national level has increased substantially after 2022 but is still insufficient to guarantee better EU security as a whole. This is because of a lack of incentives to invest in some countries, as well as highly unequal and limited fiscal space. Investing in a more coordinated manner in R&D, production and procurement would increase economies of scale, enhance the interoperability of military equipment and tackle the fragmentation of Europe's defence industrial base, which is still predominantly structured along national lines. This would also be important for long-term resilience, as a stronger European defence industry would reduce dependence on weapons supplies from outside of Europe.

Starting with Ursula von der Leyen's first so-called geo-political commission, a number of defence-related investment initiatives were launched in the EU. In 2021, during the first Trump presidency, the EU created the €8 billion European Defence Fund to boost collaborative research and development to foster a more integrated and innovative European defence industry.[6] In the same year, member states set up the €5 billion off-budget European Peace Facility (EPF) to enhance the EU's ability to respond to security challenges globally by financing defence-related assistance.

5. In her ReArm Europe plan, Commission President von der Leyen proposes to exempt national defence spending from the fiscal rules, which she hopes could enable up to 650 billion in additional member state defence spending (von der Leyen 2025).
6. In the framework of the new Strategic Technologies for Europe Platform (STEP) it will get a further top-up of €1.5 billion.

After Russia's full-scale invasion of Ukraine, its budget was topped up on an ad-hoc basis with €17 billion, and its focus was changed to financing weapons deliveries to Ukraine. Another emergency measure was the Act in Support of Ammunition Production (ASAP) worth €500 million to alleviate some of the most urgent ammunition shortages, while the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA) was created to incentivise common arms procurement by covering overhead costs through a €300 million fund. Moreover, the EIB Group launched the Strategic European Security Initiative (SESI), providing €8 billion in financing for dual-use goods and established the €175 million Defence Equity Facility (DEF) (with €100 million coming from the European Defence Fund) to support SMEs and defence startups.

These instruments are important for developing a more integrated and innovative European defence industry but are woefully underfunded. The Commission's European Defence Industrial Strategy (EDIS) and European Defence Industry Programme (EDIP) to improve defence industrial readiness aim at making them more ambitious, but any substantial increases in funding will be difficult, given the limited member state appetite to increase the EU budget and the status quo bias in negotiations for the Multiannual Financial Framework (MFF).

To channel more money into defence, some shifts in existing MFF headings such as dedicating cohesion policy funding to increase common security should be targeted (Hunter 2024), as should further leveraging through the use of financial instruments. For example, the large pool of funds available to national promotional banks (NPBs) could be better leveraged by increasingly blending them with EU instruments such as InvestEU. An instrument like the Flexible and Scalable Tool (FAST), proposed under the European Defence Industry Programme (EDIP) as a top-up to InvestEU, could be a first step for more NPB involvement within the current MFF.

Moreover, frontloading resources from the European Peace Facility and the next MFF could help tackle some immediate financial needs; for example, for the deployment of European troops to Ukraine following a peace deal, and more investment in Ukraine's defences to prepare for future Russian aggression. However, existing MFF flexibility mechanisms such as the flexibility instrument and the contingency margin only allow limited repurposing, especially considering likely political hurdles. More radical and more innovative change is therefore needed.

As part of her 'ReArm Europe' plan, the Commission proposes SAFE, an instrument using EU budget headroom initially planned for NGEU to back up 150 billion in cheap loans to member states. To get this initiative past opposed member states like Hungary, the Commission plans to use Article 122 TFEU allowing for qualified majority voting. However, highly indebted member states have so far shown little interest in taking up loans through SAFE citing concerns of debt sustainability. France, Spain and Italy have instead called for grants financed by common borrowing. This would indeed make it easier to quickly mobilise financing across the EU. However, this would likely require unanimity among member states, which is currently unlikely. Therefore, the EU should consider an off-budget instrument based on a coalition of the willing, which could create a European Security Funding Facility (ESeFF) under a new defence financing treaty in the spirit of a supra-national avantgarde (Zuleeg et al. 2024). It could also include some like-minded non-EU member states such as the UK and Norway.

While not part of EU mechanisms, the ESeFF should be integrated into EU processes and administration as far as possible and be open to other interested countries. ESeFF should also include an exit mechanism where, by unanimous vote of the remaining members, a country that moves away from the common security commitments could be excluded from the mechanism.

The spending of the fund should focus on defence research and development, infrastructure, arms and ammunition production, and joint procurement. It should focus on investments that would otherwise not be financed by national governments while complementing existing national, public, and private efforts. This would allow countries to increase their funding for defence and security in an efficient way. Under a national match funding system, recipients would be required to contribute national funds as a prerequisite for receiving grants (Lausberg and Zuleeg 2025). This would increase the impact of ESeFF spending while providing member states with a great degree of control. The ESeFF should also make use of existing EU instruments such as EDIRPA for joint procurement and ASAP to invest in production. To make sure that investments help develop the European defence industry for more long-term resilience, there should be a clause limiting procurement from outside the EU and the members of the ESeFF.

The ESeFF should be held democratically accountable through existing ESM accountability features, including national parliamentary oversight, member state-appointed governors and directors, as well as annual reports and independent external audits.

Ways to improve the EU's fiscal response to natural disasters

The Union is increasingly exposed to climate-related disasters. Between 1981 and 2023, natural catastrophe-related extreme events (such as large wildfires or extreme floods) caused around €900 billion in direct economic losses in the EU, with more than a fifth of the losses occurring in the last three years (ECB 2024). From only 2023 to 2024, severe floods were hitting Italy and Slovenia. In November 2023, intense rain and floods affected various central and Eastern European countries in September 2024, and a major flood occurred in Valencia, Spain in late October 2024.

The main response to natural catastrophes should come from the member state-level. However, given the increasing frequency and severity of disasters, there is a strong case for complementing the national response with a robust EU-level response, both for solidarity purposes and to encourage national authorities to invest in risk mitigation actions.

Today, there are two EU instruments to react to natural disasters: the Union Civil Protection Mechanism and its associated fund (called 'RescEU') and the EU Solidarity Fund (EUSF). Both are largely insufficient.

The Union Civil Protection Mechanism (UCPM) 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, earthquakes, and also wars or humanitarian crises). It was created in 2001 and, in 2019, 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 total budget for UCPM/RescEU is €3.3 billion. Besides, an important part of this budget (EUR 2 billion) comes from the NGEU. As noted in the Niniisto Report (2024), this means that the current RescEU budget is not guaranteed in the long term, as roughly two-thirds of it is financed under 'one-off' funding.

The EU Solidarity Fund (EUSF) provides financial support to member states and candidate countries affected by 'severe' natural disasters (defined according to the amount of estimated direct damages incurred as a percentage of GDP).[7] The EUSF was created in 2002 and is used with some regularity. However, the size of the fund is very small (€1.1billion per year), and is largely insufficient in the face of the magnitude of recent climate catastrophes (ECB et al. 2024; García Guerrero et al. 2024).

The EU Solidarity Fund has two other limitations. First, support comes with a long delay. The 2019 evaluation of the fund (European Commission 2019) already noted that EUSF funds typically took around a year to come following a disaster. The delay in response has not been reduced over time. For example, in September 2024, the Council approved €1.28 billions of EUSF in support of Italy, Slovenia, Greece, and France to address the consequences of floods that occurred between May and November 2023. The second limitation is that EUSF support does not integrate considerations of disaster prevention and risk reduction. The fund finances all types of emergency support and recovery operations but does not prioritise operations which respect the principles of 'build back better' (such as rebuilding more resilient infrastructure). Furthermore, the aid is not

7. In the event of a national disaster, the damage must exceed €3 billion or 0.6% of the member state's GNI or. In case of disasters localised in a single region, the damage must exceed 1.5% of the regional GNI.

conditioned to the adoption of risk-prevention strategies (such as having land-use regulations that prohibit construction in high-risk flood areas, or good forest management policies).

In December 2024, the Council and the European Parliament adopted a new EU regulation called RESTORE (Regional Emergency Support to Reconstruction) in response to the limitations of the European Union Solidarity Fund (EUSF) and the severity of recent catastrophes. The RESTORE regulation enables member states to swiftly reallocate up to 10% of their cohesion policy's national envelope to address the impacts of natural disasters.

The idea of allowing the re-purposing of EU cohesion policy funds in response to crises remains contentious. Many argue that this approach diverts the policy away from its long-term investment goals (Rubio and Alcidi 2024). However, there are pragmatic arguments in favour of such flexibility. A crisis may render the timeline or scope of planned investments inappropriate. Moreover, EU cohesion funds can provide immediate financial support following a disaster, easing the burden on national budgets while awaiting the arrival of EUSF assistance.

The RESTORE regulation, however, presents several challenges. First, like EUSF support, RESTORE assistance is not conditional on the adoption of sound resilience and risk mitigation measures. Second, the regulation allows member states to activate these flexibilities whenever a natural disaster is recognised by a competent national authority. This creates a risk of abuse – some governments may be tempted to classify minor disruptions as 'disasters' to redirect cohesion policy funds away from their original long-term objectives toward politically motivated expenditures.

Looking ahead, reinforcing the EU's financial response to natural disasters in the post-2027 Multi-Annual Financial Framework is essential. In particular, the European Union Solidarity Fund (EUSF) should be significantly increased and the application process streamlined to reduce delays in delivering assistance. The RescEU fund should, at a minimum, retain its current budget level, with the two-thirds currently financed by NextGenerationEU (NGEU) fully covered by the next long-term EU budget.

Apart from that, all EU financial support for disaster response – whether provided through the EUSF or cohesion policy funds – should place greater emphasis on recovery operations aligned with the 'build back better' principle, ensuring reconstruction efforts enhance resilience against future disasters.

The EUSF should also include incentives to encourage the adoption of risk mitigation policies. One possible approach would be to link access to EUSF support to the implementation of specific risk reduction measures. Another option, as suggested in a recent ECB-EIOPA paper (2024), would involve introducing a two-pillar structure: the first pillar would maintain the current EUSF, while the second would establish a mandatory public insurance fund, financed by dedicated member state contributions. These contributions would be calculated based on both risk exposure and compliance with EU climate adaptation targets, meaning that countries with stronger risk mitigation measures would contribute at lower rates.

Finally, while member states should continue to be allowed to reallocate part of their EU cohesion policy funds for disaster response, the decision to do so should not rest solely with national authorities. EU institutions should assess and determine whether the conditions for such reallocation are met, ensuring a coherent and coordinated approach to disaster response at the EU level.

In addition to improving the EU's public finance capacity to respond to natural disasters, it is worth exploring the proposal included in the aforementioned EIB-EIOPA paper to set up an EU public-private climate catastrophe reinsurance scheme. The scheme would provide additional reinsurance to private insurance companies against extreme risks by pooling risks across the EU. While facilitated by the EU, it could, in principle, operate solely on private funds.

Conclusions

Since the COVID-19 crisis, the EU has made some progress in strengthening its crisis management capacities. However, its budget framework remains overly rigid and primarily focused on ensuring medium-term investment, limiting its ability to respond swiftly to emerging challenges.

In an era of heightened risk and uncertainty, the EU must enhance its fiscal capacity to anticipate, prevent, and effectively manage crises. This requires the establishment of permanent crisis-response mechanisms rather than reliance on ad hoc, temporary solutions. It is equally important to ensure coherence between short-term crisis relief and long-term resilience investments and guarantee appropriate accountability and oversight on new EU crisis mechanisms to reduce risks of misuse while guaranteeing that EU money goes to those sharing the EU's common values and goals.

Given the EU's capability gaps in addressing rising military threats, a rapid increase in defence investment is essential to ensure security. However, since channelling additional defence funding through the EU budget remains challenging, member states should rely on off-budget mechanisms for the bulk of common financing. For swift initial investment increases, the European Stability Mechanism (ESM) mandate should be adjusted to allow part of its unused borrowing capacity to be allocated to common defence projects, such as air and missile defence. For more substantial investments, willing member states and interested non-EU countries should establish a large, permanent European Security and Defence Financing Facility (ESeFF). To strengthen Europe's defence industry and enhance long-term resilience, the ESeFF should include a 'Made in Europe' clause, limiting procurement from outside of Europe. To ensure funds are deployed effectively and remain aligned with common security commitments, an exit clause should allow for the exclusion of countries that diverge from shared objectives.

It is also essential to reinforce the EU´s fiscal capacity to respond to major natural catastrophes. While there are dedicated EU funds to react to these events – the EU Civil Protection Mechanism and the EU Solidarity Fund – they remain largely insufficient to address the scale and complexity of new climate-related emergencies. Their funding should be significantly increased. National authorities should have some flexibility to reprogramme EU cohesion policy funds in response to catastrophes; however, EU institutions should assess and determine whether the conditions for such reallocation are met. All EU financial support for disaster response should prioritise recovery efforts that align with the 'build back better' principle and include incentives for adopting sound risk mitigation policies.

Altogether, the EU and its member states need to become more resourceful in their crisis response in the face of rising challenges, particularly those related to security and climate risks. Smarter use of existing funds, reliance on coalitions of the willing, and the creation of new off-budget mechanisms may be necessary to fill financing gaps. Such solutions might not be ideal, but they might be the only way to ramp up the EU´s fiscal capacity in the short term.

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