Regional eligibility: Avoiding the leopard effect

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In a nutshell

The debate on the future of cohesion policy might also cover its regional eligibility system. One proposal that was brought to the table in the context of the European Parliament’s position on the 8th cohesion report is to reduce the number of categories from three to two. But do we really need to revise the current system?

Any potential reform should be assessed with great caution as it would entail losers and winners and could lead to an even greater politisation of cohesion policy allocations.

1. Introduction

One of the most politically sensitive aspects of cohesion policy is its allocation methodology. Nowadays the distribution of funding is based as much on objective indicators as on intense horse-trading between Member States seeking to secure additional resources in the context of MFF negotiations. As a result the number of special funding allocations and exceptions to the allocation key has ballooned.

The distribution criteria are themselves a matter of debate. The traditional centrality of GDP in the allocation key is increasingly questioned. Many stakeholders have argued in favor of increasing the weighting of the other indicators, as they are only marginally taken into account in the current formula, or even introduce new ones altogether. But moving away, albeit slightly, from a GDP-centric methodology is going to stir controversy as it will inevitably create winners and losers.

Against this background, the current eligibility system, based on three categories of regions, stands to be the less contentious element. There is little doubt that the allocation formula will feature prominently in the debate in the run-up to the post-27 proposal. Discussions may also concern the eligibility arrangements. This is already the case with the European Parliament’s draft report on the 8th Cohesion Report.

2. Evolution of eligibility system

Since modern cohesion policy was established in 1988 the regional eligibility framework has been overhauled a number of times. Successive variations in the number and scope of categories (previously objectives) were adopted to reflect developments that were both internal and external to the policy. For instance, the decision to make all regions eligible for support since 2007-2013 is in part the result of a broadened focus of the policy and a gradual alignment with the main EU priorities.
On the other hand, the sub-category of “phasing-out” regions in 2007-2013 aimed to give transition support to areas that would have remained eligible under the convergence objective if it weren’t for the statistical effects of the enlargement. One feature of the eligibility system that has not changed over the years is a specific category for NUTS2 regions with GDP below 75% of the EU average. This is consistent with the primary goal of cohesion policy to target “the least favoured regions”.

The current three-tier system was first introduced in 2014-2020 to fully acknowledge the existence of an intermediate grouping of regions which, despite not being (any longer) in a less developed condition, needed additional support to fully converge, all the more taking into account the effects of the enlargement and the crisis of 2008. This group was already accounted for within the phasing-in/phasing-out sub-categories under the 2007-2013 period. The creation of a full category aimed to simplify this latter structure.

Over the years, the transition category has come to capture an emerging trend labelled “middle-income trap” whereby a number of relatively well-off regions, especially in Western Europe, have ceased to converge or have experienced stagnation. The case for keeping three categories has therefore been reinforced. Under the 2021-2027 period, the only change concerns the eligibility threshold for the transition regions, which has been raised to 100% of the EU GDP.

3. Going back to two categories?

The debate on the future of cohesion policy might also address the eligibility system. One proposal that was brought to the table in the context of the European Parliament’s position on the 8th Cohesion Report is to reduce the number of categories from three to two. This option could feature in future discussions.

What would be the actual impact of a two-categories system? To get a sense of it we have run a simulation taking the 2021-2027 allocations as a reference. Let us assume here that the current allocation keys for the categories of less developed regions and more developed regions are retained in the post-27 period and a threshold of 90% of the EU27 average GDP is established between the two categories. The allocations originally intended for the regions in transition are split between the less developed and the more developed categories depending on which of the two groups the ex transition regions will join. The total envelope for the category of less developed regions would increase by €45 billion (from €227 billion) with 45 additional regions joining the group. The allocation for the category of more developed regions would grow by €8 billion (from €30.5 billion) and be extended to 21 additional regions.

Tables - Simulation for 2 categories of regions instead of 3. Redistribution of Transition Regions and their allocations.

<table>
<thead>
<tr>
<th>Number of regions</th>
<th>LDR &lt; 75%</th>
<th>Transition</th>
<th>MDR &gt; 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simulation</td>
<td>+45</td>
<td>+21</td>
<td></td>
</tr>
<tr>
<td></td>
<td>126</td>
<td>95</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocation (€ Billion)</th>
<th>LDR &lt; 75%</th>
<th>Transition</th>
<th>MDR &gt; 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simulation</td>
<td>+ €45,5 b</td>
<td>+ €8 b</td>
<td></td>
</tr>
<tr>
<td></td>
<td>€272,5  b</td>
<td>€38,5  b</td>
<td></td>
</tr>
</tbody>
</table>
What would be the theoretical variations in terms of regional allocations? The “threshold effect” between the less developed and more developed categories would no longer be mitigated by the existence of a transition category. This would theoretically result in a decrease on average in the individual allocations of less developed regions, while the former transition regions joining the category would see their allocations increase.

Conversely, the more developed regions would see an overall increase in their individual allocations while the allocations of the former transition regions joining the category would fall. It is important to highlight that these figures are theoretical as Member States have considerable leeway in deciding the distribution of resources across regions under the same category (and enjoy now the possibility to move funds across categories). Updated statistical could also modify the results.

Map – Simulation of theoretical variations in the regional allocations of Cohesion Policy on the basis of 2 categories of regions instead of 3.

Which countries would be most affected by these variations? Some countries with almost or more than half of their regions currently in the category of regions in Transition would be particularly impacted by this modification:

- Estonia (its only NUTS2 region would join the less developed category);
- France (21 regions out of 27 are in the category of regions in transition, with 16 joining the category of less developed regions and thus 5 the category of more developed regions);
- Spain (9 of the 19 autonomous communities are in the category of regions in Transition, 7 of them would pass in the category of less developed regions while 2 would pass in that of the more developed regions);
- Finally, 3 of the 5 NUTS2 regions of Finland currently in transition would move into the category of more developed regions.
Map – Comparative map of regional eligibility between the 2021-2027 period and the simulation of 2 categories of regions instead of 3 with a threshold of 90% of the average GDP of the EU.

What conclusions can we draw? A first conclusion is that less developed regions will be penalised by the new system whereas more developed ones will make some gains. The size of losses or gains in some instances is relatively limited compared to the sheer envelopes. A system based on 2 categories of regions should be accompanied by a review of the allocation methodology in order to ensure continuity in the allocation levels of the current period and to mitigate a probable threshold effect between categories. In order to counter excessive variations in theoretical allocation amounts, categories of regions in the exit or entry phase (Phasing-out, Phasing-in) as was the case for the 2007-2013 period would need to be created.

Do we need to revise the eligibility system?

A two-tier system is only one of the options that could be featuring in the debate on the future of cohesion policy. The simulation presented in the previous section is not specifically aimed at assessing the pros and cons of this particular proposal. It rather serves the broader purpose of showing that any changes to the current system should be carefully assessed as it would inevitably entail losers and winners.

The risk is that a reform will prompt even more fraught negotiations among Member States and would eventually be agreed only at the cost of creating even more special allocations as compensatory measures. The result would be thus little different than the current situation. For instance, the establishment of a two-tier system may entail resuming a phasing in/phasing out mechanism to mitigate a “cliff effect” for some ex transition regions, which would de facto mean keeping the transition category by other means.
This *Leopard* scenario where “everything changes for everything to remain the same”\(^1\) should be avoided. As we have learned time and again in cohesion policy, reforms intended to bring about simplification may end up with generating more complexity.

Going forward, a number of questions will need to be asked when approaching the question of eligibility:

- How to keep a simple and straightforward eligibility framework vis-à-vis the growing complexity of regional disparities and demands to “go beyond the GDP”? How to adapt the current tripartite structure to this evolving reality? Could the creation of sub-categories under the existing three categories help best acknowledge this scenario (for instance a “low growth” sub-category) or will it add unnecessary complexity?

- How to make sure that a potential reform of the eligibility system (and allocation formula) is met with large consensus and does not spark controversy between member states – ending up with the usual catalogue of ad hoc extra allocations? Should the Commission launch a wide-ranging consultation and make the process as much inclusive as possible?

- Is it convenient to launch an early discussion on the eligibility framework for cohesion policy at a time the future structure of the EU budget looks very uncertain given the potential influence of new instruments such as NGEU?

Please quote as: Molica, F., Moreno, G. (2022), “Regional eligibility: Avoiding the leopard effect”, CPMR reflection paper, Conference of Peripheral and Maritime Regions

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The Conference of Peripheral Maritime Regions (CPMR) represents more than 150 regional authorities from 24 countries across Europe and beyond. Organised in geographical commissions, the CPMR works to ensure that a balanced territorial development is at the heart of the European Union and its policies.

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\(^1\) The famous dictum comes from Giuseppe Tomasi di Lampedusa’s novel “The Leopard”, whose portrayal of Sicily at the time of Italy’s unification has come to epitomise the paradox of a major historic event that ends up perpetuating the status quo instead of changing it.