Placing regional disparities at the heart of EU future agenda
(CPMR contribution to the 8th Cohesion Report)

In a nutshell

The document provides technical input from the CPMR general secretariat to the European Commission request for feedback on the 8th report on economic, social and territorial cohesion, which was open for a period of four weeks and closed on 8 March.

Expected for late 2021- early 2022, the report will assess progress in reducing economic, social and regional disparities in the EU and how national and EU policies have helped achieve this. This contribution builds upon the CPMR policy positions on the cohesion policy package 2021-2027 as well as its longstanding messages on EU cohesion policy.

The CPMR general secretariat believes that the 8th Cohesion Report should focus on:
- The polarisation between Europe’s core and peripheral regions, as well as growing territorial trends such as development traps, obstacles faced by border regions, impact of climate on territorial cohesion, metropolitan-rural divides.
- The impact of the Covid-19 crisis on the territorial cohesion and on cohesion policy
- The future role of cohesion policy in a reformed EU framework for investments and in the European Semester
- How the main principles of cohesion policy could be upheld and strengthened in the future vis-à-vis a shift towards centralisation
- The specific challenges faced by islands and territories with demographic and geographic specificities

1. Introduction: A continent of (rising) territorial divides

Regional disparities across Europe remain pronounced. The convergence process in the continent was derailed by the financial crisis of 2008 and has never completely recovered. Overall progress in past years can be ascribed to a large extent to the catching-up process of Eastern Europe regions. By contrast, regional inequalities have continued to grow in Western Europe. Peripheral and maritime regions have been particularly affected irrespective of their level of development.
According to the European Commission, the distribution of regional GDP per head suggests disparities will further deepen in the future. This trend is likely to be exacerbated by the devastating and asymmetric effects of Covid-19 at territorial level. Maritime and insular regions are among the worst impacted by the crisis as they depend upon sectors (tourism, hospitality, transport) that have been critically hit.

Regional data point to a variety of territorial divides that deserve close scrutiny. Above all, a resurgent polarisation can be observed between Europe’s core and peripheral regions; between regions home to large metropolitan areas and those with medium/small towns or rural areas; between regions with geographical and demographic handicaps and the rest.

The CPMR general secretariat believes that the 8th cohesion report needs primarily to focus on these three major fault lines that cut across and within Europe’s regions. It should also assess the extent to which the Covid-19 crisis has aggravated them.

At the same time development traps are spreading. Globalization and technological change are driving an ever-greater territorial concentration of wealth. Emerging challenges linked to the climate change or the digital divide threaten to create new disparities, especially for peripheral, maritime and insular areas.

Border regions face a host of specific obstacles which have been aggravated by restrictions to the freedom of movement adopted in the wake of the Covid-19 crisis. Outermost regions are exposed to specific problems due to their remoteness from continental Europe, their small size and unfavourable climatic conditions. The 8th cohesion report should also look carefully at all these territorial trends.

2. An overview of regional inequalities

2.1 Cohesion policy eligibility

EU regions followed different economic trajectories during the programming period 2014-2020. The CPMR has carried out a comparison of regional eligibility for Cohesion policy between the programming periods 2014-2020 (based on the average of regional GDP expressed in purchasing power standards (PPS) for the years 2007, 2008 and 2009) and 2021-2027 (based on the average for the years 2015, 2016 and 2017). In the new programming period 59 regions would change eligibility thereby moving to another category of regions.

Of these regions, almost 50 will face a downgrading of category, also due to a modification of the threshold between the categories “transition” and “more developed” Regions. GDP per capita (as a percentage of the EU average) has fallen in 42 regions changing eligibility, with an average decrease of -13%. This means that a majority of them would have been downgraded even if the old threshold for Transition regions would still be in place.

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2 Iammarino, S. at al., Falling into the Middle-Income Trap? A Study on the Risks for EU Regions to be Caught in a Middle-Income Trap, DG REGIO study, 2020
4 See point 1.1 “Regions which will change eligibility from 2014-2020 to 2021-2027 period” of annex 1 “Regional eligibility of Cohesion policy” (CPMR, October 2020).
5 All regions with a regional GDP average between 75% and 90% of the EU average were considered as ‘transition regions’ in the 2014 – 2020 period. The threshold was changed for the 2021 – 2027 period to include all regions between 75% and 100% of the EU average.
Furthermore, since the Council adopted in July 2020 the regional eligibility provisions for the period 2021-2027, updated data on regional GDP at NUTS2 level were released in October 2020 and February 2021 by Eurostat\(^6\). If the last available data were considered, 5 more regions would change category their eligibility.

These statistics confirm the ever-greater territorial divide across Europe’s regions, which is being exacerbated as the COVID-19 crisis affects regions in markedly different ways.

2.2 Many regions in well-off countries are increasingly affected

The breadth of changes in terms of GDP (as a percentage of the EU average) between the two programming periods depends on the country to which the regions belong. All or most regions in the same country seem affected by a similar development trend, whether negative or positive.

The graphic below shows the evolution of regional GDP within EU Member States, referring to the worst and best performance in terms of variation in each Member State, between the 2014 – 2020 programming period, and the 2021 – 2027 programming period.

\(^6\) Point 1.2 “Regions which would change eligibility if the last available data was used in comparison of the regional eligibility of the period 2021-2027” of the annex “Regional eligibility of Cohesion policy” CPMR October 2020.

\(^7\) The latest available data of GDP at NUTS2 level which were published on the 4th of March 2021 are not considered in the study.
Countries in Southern Europe are affected very negatively. All NUTS2 regions in Cyprus, Greece, Slovenia, and Spain face a decrease in terms of GDP (as a percentage of the EU average) between the eligibility periods 2014-2020 and 2021-2027. On the other hand, GPD per capita has increased in most Eastern European regions, including in all regions from Bulgaria, Hungary, Poland and Romania.

Other countries have faced a strong negative trend. Most regions in France, Italy, Netherlands, Sweden, Finland have experienced a decrease of GDP per capita in relation to the EU average. Some of these regions were already defined in the 7th cohesion report as “middle-income trap regions”. Their growth from 2001 to 2015 was below the EU average due to the structure of their manufacturing sector and the lack of competitiveness, as highlighted in the report. The issues faced by these regions seem to have worsened during the period 2014-2020.

The map below shows that a growing number of regions, including in well-off countries, is diverging from the EU average in terms of GDP.
2.3 The insular dimension

Article 174 of TFEU sets out that the European Union, in pursuing the objective of territorial cohesion, shall pay particular attention to regions suffering from natural and demographic handicaps.

One type of territories covered under Article 174 is islands. Despite significant differences, island regions in Europe experience common development obstacles that are specifically linked to their insularity. It is hardly a surprise that most of them have diverged from the EU average in terms of GDP per head in past years. The Regional Competitiveness Index (RCI)\(^8\) captures more pointedly the breadth of insular disadvantages.

Insular regions systematically underperform in the parameters of the index, which gauges the capacity of a regions to offer an attractive and sustainable environment for firms and citizens. Islands as well as the other territories mentioned di article 174 have been neglected in previous cohesion reports.

The CPMR general secretariat is of the view that the 8\(^{th}\) report should provide a thorough assessment of specific challenges faced by islands under a dedicated section.

3. Cohesion policy, EU budget and economic governance

Over the past two decades cohesion policy has had a key role in ensuring adequate levels of investment at regional and local level in the face of declining national funding. Studies have found that cohesion funds significantly cushioned for many years the impact of the 2008 economic crisis on regional income\(^9\). Overall, there is ever increasing evidence about the hugely positive effects of cohesion policy on growth and jobs creation, including through its Territorial Cooperation strand\(^10\).

Cohesion policy has also become the main source of EU investments on new priorities such as climate and digital. Aside from the financial benefits, it has contributed to empowering regional authorities in EU policy implementation. At the same time, it has incentivised the rollout of important legislative, institutional and policy reforms\(^11\).

Yet negotiations over the 2021-2027 MFF had often appeared to provide little acknowledgement of this. Draconian cuts to the budget of cohesion policy were put on the table. In the end, the agreement reached by the European Council in July 2020 saw a more modest reduction of the cohesion envelope than what many had feared. But the agreed amount looks insufficient vis-à-vis the growing number of challenges that confront Europe’s regions. More alarmingly, a misleading narrative on cohesion policy, depicting it as an old-fashioned policy spending mostly on traditional areas, featured prominently in the debate on the future of EU budget.

The discussions surrounding the cohesion policy regulations for 2021-2027 have also sent worrying signals. A shift towards “re-nationalization” or “centralization” of certain aspects of the policy has clearly emerged. A number of taboos have been broken threatening core principles of cohesion policy such as the partnership principle (e.g. the Austrian presidency proposal for a voluntary partnership agreement) and the territorial earmarking (e.g. possibility to transfer significant resources across categories of regions and

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\(^8\) https://ec.europa.eu/regional_policy/en/information/maps/regional_competitiveness/

\(^9\) Merler, S. Income convergence during the crisis: did EU funds provide a buffer?, Bruegel, 2016

\(^10\) Darvas Z. et al., Cross-border, but not national, EU interregional development projects are associated with higher growth, Bruegel, 2019

funds and to direct management programmes). In the run-up to the presentation of the package, the Commission had even gone as far as calling into question the “universal” geographical scope of cohesion policy.

The Covid-19 crisis has put cohesion policy into the spotlight. The first response of the EU to the health emergency has rested on a massive reprogramming of existing cohesion funds thanks to a relaxation of provisions under the regulations CRII and CRII+. Cohesion policy will be also instrumental in sustaining the recovery through the REACT-EU instrument and its 2021-2027 programmes.

However, the flexibilities introduced, albeit temporarily, under both the CRII packages and REACT-EU depart considerably from the core principles of cohesion policy, in particular in relation to its long-term investment nature, multi-level governance and the territorial earmarking. At the same time, the Recovery and Resilience Facility (RRF) – the main component of the EU Recovery Instrument – poses new challenges to cohesion policy as the two have similar priorities. It appears inevitable that there will be a debate over the merits of the RRF vis-à-vis cohesion policy. The centralized and agile governance of the RRF makes it very appealing to many national governments. This might have a bearing on the design of post-2027 cohesion policy affecting its territorial focus and multilevel approach.

The CPMR general secretariat is of the view that the 8th cohesion report should provide an in-depth analysis on the impact of the Covid-19 crisis on cohesion policy, assessing the various implications in the short term as well as long-term.

Despite being a one-off instrument, the RRF marks a historical step that could trigger a deep review of the EU investment frameworks in the future. The CPMR general secretariat expects the 8th cohesion report to set the debate on the role of cohesion policy in a reformed budget of the EU. At the same time, the 8th cohesion report should in our view open a reflection on how the founding principles of cohesion policy – in particular the partnership principle and the multilevel governance – could be upheld and strengthened in the future.

The link between the European Semester process and cohesion policy has been strengthened under the 2021-2027 regulations. The embedding of the Recovery and Resilience Facility under the Semester process highlights the importance of the EU economic governance framework in the definition of EU investment policies. The 8th cohesion report should address the link between the European Semester and cohesion policy, especially focusing on how the key principles of cohesion policy such as partnership and multilevel governance can find their place within the economic governance framework. At the same time, a stronger territorial dimension in the Semester reports and recommendations, through the acknowledgement of existing territorial challenges, is essential in view of relevant investment guidelines for EU funded programmes.

4. Future Cohesion Policy trends

The outcome of the European Council on 21 July resulted in an unprecedented level of special funding allocations for certain Member States (often without any supporting justification) for the ERDF, CF, ESF and EAFRD. This fact calls into question the legitimacy of having a methodology in the first place for allocating Cohesion policy funding. The European Commission should undertake a reflection in the 8th cohesion report on how to reform the allocation methodology in view of simplifying and better align it to the goals of cohesion policy. Is it time to ditch the Berlin formula?

As highlighted in the previous section, the 8th report could also look at the partnership principle with the aim of outlining avenues to ensure a reinforced implementation in the future. The extent to which the
The partnership principle is applied greatly varies from Member State to Member State. To this end, the 8th Cohesion report should assess whether the code of conduct needs to be revised and on which basis.

It would be also key to assess the role of cohesion policy in strengthening the competitiveness of regions. More specifically, the report could focus on the concept of Smart Specialization Strategies and how it could be taken further in the future in the context of cohesion policy.

At the same time, specific attention should be provided by the report on the territorial dimension of cohesion policy. The Policy Objective 5 under the new framework for 2021-2027 marks an improvement. To be sure, the new regulations acknowledge more openly than in the past the demographic or geographical challenges faced by many territories. But there are no requirements to design specific measures and earmark funding for these challenges.

Developing the means for a suitable economic environment to deploy post-pandemic economic activity (e.g., broadband connection, digital skills) is also essential, especially for non-urban regions. Not assessing this need will make the divide urban-rural gap bigger.

A discussion should also be held on the interlinks between cohesion policy and environment and climate policy. The pressure to strengthen the green perspective of investments under cohesion policy, should not harm the implementation of key projects whose main objective is territorial cohesion. It is important to strike a balance.