

# Recovery and reform in the EU's most vulnerable regions

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Europe's most vulnerable regions, characterised by persistent low growth and poverty, face a systemic lack of specific EU support.<sup>1</sup> These regions display particularly high levels of vulnerability to the social, economic and territorial impacts of COVID-19, which will affect their recovery trajectories. They risk being left further behind in the EU's complex pathway towards 'a green and digital recovery'.<sup>2</sup>

The Union's lack of focus and action for investing in these most vulnerable regions must be addressed. First and foremost, EU institutions and member states should

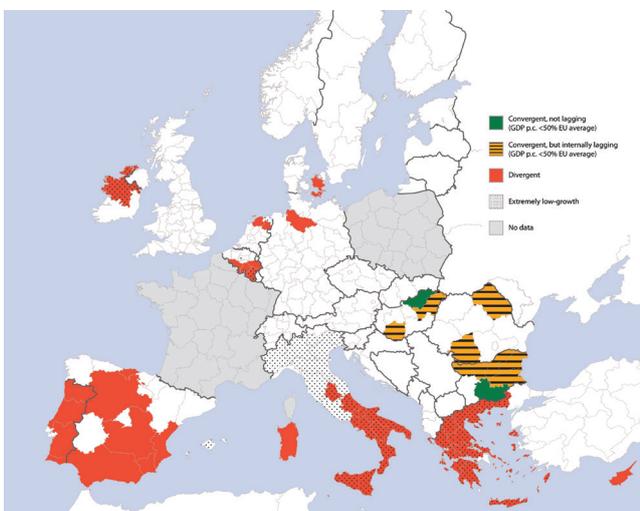
recognise that some territories will struggle much more than others in their recovery trajectories. Ignoring their plight would have potentially far-reaching consequences. The EU's 'convergence machine' could be damaged irreparably, with long-term – and potentially political – consequences.

We call for a specific EU initiative to support the Union's low-growth, poor regions, underpinned by the existing policy architecture. In particular, we recommend:

- creating an EU policy space for regions experiencing long-term low growth and poverty, to promote the value and visibility of place-based support;
- aligning Cohesion Policy (CP) and the Recovery and Resilience Facility (RRF) for improved policy coherence and greater investment impact; and
- tailoring support for growth-enhancing reforms in the EU's most vulnerable regions.

FIG.1

REVISED LAGGING REGIONS TYPOLOGY  
BASED ON GDP (2018)



Source: Pilati and Hunter (2020)<sup>3</sup>

## BACKGROUND: LOW GROWTH, COVID-19 AND REGIONAL DISPARITIES

Achieving a COVID-19 recovery that is underpinned by the twin digital and sustainable transitions is difficult for all territories across the EU. The Organisation for Economic Co-operation and Development (OECD) echoes this challenge, noting that recovery will not follow a "straight or linear course of policy action"<sup>4</sup> and should be underpinned by effective multilevel governance. Delivering successful twin transitions in places characterised by significant disadvantage will be especially difficult. Their challenges include a long-term absence of reform to address pre-existing high levels of deprivation and low-income distribution.

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## Delivering successful green and digital transitions in places characterised by significant disadvantage will be especially difficult.

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These regions face an uphill struggle to address the social, health and economic impacts of the pandemic. Long-term reform deficits (especially in governance and administrative capacity) are also preventing a swift and decisive move away from the ‘firefighting’ phase of responding to the fallout from the crisis. Failing to ensure a sustainable recovery across all EU territories will exacerbate existing disparities and impede green and digital transitions. Addressing underlying challenges of social, economic and territorial cohesion must be prioritised in the green recovery roadmap of the EU’s most vulnerable places.

Since 2000, many regions that are poorer than the EU average also have the worst growth performance. These vulnerable areas, where national and EU divergence is taking place, are strongly concentrated in Italy, Greece, Portugal and Spain.<sup>5</sup> In particular, most regions in Italy and Greece have experienced less than half the Union’s average GDP growth (see Figure 1, page 1). Although low growth also exists in other EU territories (and might well have deteriorated with the pandemic), this Policy Brief focuses on the regions of these four countries because of the complex, concentrated and long-term nature of their challenges.

*Spotlight on the complexity of the recovery challenge for low-growth regions*

Not all regions with poor growth performance face identical problems. They are subject, however, to similar characteristics that perpetuate entrenched, path-dependent outcomes and can limit options to transform social and economic realities. For example, long-term industrial decline and distance to economic opportunity can weaken business and innovation systems as well as industrial investment.

In turn, costly upgrades to social and health systems become difficult to finance and lead to long-term postponements of critical reforms (in e.g. pension systems, social safety nets and legal structures). Nation-wide reforms can become bogged down in local bureaucracy and are often ill-conceived to support smooth, local implementation. Critically, capacity for effective public administration and governance (within the region and connected to national and EU levels) can become significantly reduced over time. The EU’s fragmentation and inequality challenges – manifested in areas like digital and innovation divides, limited capacity for energy transition and high concentrations of people with low skills and/or pay – are usually associated with its low-growth, poor regions.

Correspondingly, job losses and disruptions caused by the COVID-19 crisis and negative labour market impacts related to the twin transitions are likely to be felt more acutely in the EU’s poor, low-growth regions.<sup>6</sup> The consequential structural changes will be difficult to manage in these regions due to a lack of local capacity and appetite to respond with the right mix of reforms. While the EU is experiencing a new groundswell of demand to address reforms (spurred by the RRF’s investment capacity and drive to steer twin transition imperatives towards recovery), the momentum and ability to embrace them is far from assured in the most vulnerable, low-growth regions.

Pre-existing vulnerabilities complicate these regions’ COVID-19 recovery on two levels. First, their real-time crisis responses are weakened by **poor institutional infrastructures**. Second, planning for a green recovery is challenged by a context of limited endowments from which to ‘rebuild’, as well as a **weak capacity for reform**.

By way of example, the prevalence of digital deficits (both infrastructural and skills-related) in the Union’s poor and low-growth regions impedes their capacity for remote working. Recent OECD data reveals the state of the EU’s digital divide: low-growth regions have the least possibility for remote working in their respective countries.<sup>7</sup>

The RRF’s first disbursements must be complemented with design and implementation reform support across the EU’s poor and low-growth regions. Failure to do so risks further entrenching and widening pre-existing inequalities.

## STATE OF PLAY: EU SUPPORT FOR THE COMPLEX PATHWAY TO RECOVERY IN THE MOST VULNERABLE REGIONS

*Place-based policy: Past efforts had limited success*

In 2015, the European Commission set up the Lagging Regions Initiative to respond to the development challenge of the EU’s less developed regions. It had marginal success in transforming the fortunes of the lowest-growth regions, partly due to a limited acknowledgement of the problem of low growth and a corresponding failure to target tailored support to these regions.<sup>8</sup> Despite recent attempts to revive EU policymakers’ appetite to champion ‘place-sensitive policymaking’,<sup>9</sup> the plight of the EU’s poor and low-growth regions has remained largely under the radar of EU policy.

*The Recovery and Resilience Facility: Good potential with some caveats*

The RRF has a built-in redistributive dimension which should benefit countries that face low growth. It also has an explicit objective of cohesion: the Commission is required to verify that resources are not concentrated in more advantaged areas.

Despite its good intentions, the RRF has a strong ‘top-down’ orientation, with centralisation at the national level. This has provoked widespread criticism that

national Recovery and Resilience Plans (RRPs) are subject to a design that overlooks how territories within the same country need tailored solutions to address their different investment and reform needs. Furthermore, the RRFs' tight planning and design timeline has not allowed for extensive evidence-gathering at local levels, nor has it been conducive to engendering effective multilevel governance planning and coordination.

The risks of poor local investment targeting, linked to the RRF architecture, are particularly high in poor and low-growth regions. With the greatest 'distance' to cover to achieve a green recovery, these territories could be negatively impacted by a top-down intervention logic that fails to acknowledge or meet their reform and investment needs. This oversight could undermine the RRF's redistributive function.

Clearly, there are no quick wins or silver bullets for any EU territory to achieve a green recovery. Significant, broad-brush investments in digital infrastructures, for example, will not – in isolation – deliver a digital transition. Demand-side measures like strengthening purchasing power, interoperability and skills must work in tandem with supply-side investments. Given their multiple challenges and deficits, the EU's poor, low-growth regions need a tailored 'package' of reforms and support.

#### *A revived role for Cohesion Policy*

There is growing concern that the accelerated push at EU and national levels to get RRFs approved and mobilise RRF finances risks a default investment focus on 'shovel-ready' projects, which would normally be reserved for CP investments. Commissioner Elisa Ferreira recently insisted that national RRFs and CP resources are implemented in a "strategic and complementary" way via parallel programming, which is sensitive to territorial needs and avoids double funding.<sup>10</sup> However, some member states (including those of the most vulnerable regions) face significant capacity constraints to achieve this. This could be very detrimental to the effectiveness of CP investments in low growth regions.

The need for tailored investment and reform support presents a new and important opportunity for CP to demonstrate its added value. CP investments can complement the RRF's broad-brush investment direction, especially in the Union's most vulnerable places, by reinforcing and targeting specific reforms and actions. For example, RRF-focused energy transition funding can be significantly boosted by regional CP investments to increase job opportunities, retraining programmes and citizen-led capacity building support. Such efforts would help workers and local communities in adapting to the green transition. Cohesion investments can carve out place-based pathways towards structural transformation via a strongly connected investment approach across CP and the RRF, further reinforcing the strategic value of the latter.

## PROSPECTS: A NEW EU INITIATIVE FOR THE MOST VULNERABLE REGIONS

The RRF's investment capacity, coupled with the 2021-27 CP, has ignited widespread national enthusiasm for reforms, which was virtually impossible to mobilise in the past. Prior to the RRF, the annual performance of national reform implementation, as requested in the European Semester's Country-Specific Recommendations, was underwhelming, owing to the various 'costs' involved.<sup>11</sup> EU territories have different 'starting points' when embarking on the path to a green recovery. Poor and low-growth regions have the most ground to cover and the least capacity to focus on reforms while responding to the immediate needs of the crisis. Reform pathways take time, are costly and require citizen acceptance which can be difficult to engender. Strong and consistent local political leadership that 'keeps the pace' with reform implementation will be critical.

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**Poor and low-growth regions have the least capacity to focus on reforms while responding to the immediate needs of the COVID-19 crisis.**

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The European Commission should create a specific EU initiative under Commissioner Ferreira's responsibility to support the Union's most vulnerable regions with dedicated actions and investment for a green recovery. The initiative's underpinning architecture and investment are already present in the RRF, CP and Technical Support Instrument (TSI). The specific recommendations below outline how to improve the process, direction and implementation of these existing instruments.

### **RECOMMENDATION 1: CREATE AN EU-LEVEL POLICY SPACE FOR LOW-GROWTH REGIONS**

Previous EU policy failed to acknowledge the challenges of the Union's most vulnerable territories and the urgency to address their long-term poverty and low growth. There is now **a new momentum for place-based policymaking**, which the European Commission should exploit through the following elements:

- **Acknowledge the value of specific, multilevel support for vulnerable territories** in new and existing policy instruments. This could be done via an appropriate analysis of low-growth patterns in the 8th Cohesion Report; a revival of the European Semester's Annex D<sup>12</sup> (focusing on disparities and inequalities) and connecting this to the ongoing monitoring of the RRF; and positive engagement with the Conference on the Future of Europe to highlight local needs to EU institutions.

- **Develop a territorial evidence base** which details the implementation and impact of reforms across all EU territories by tracking continuously the evolution of both national and regional interventions and investments. This repository of evidence, knowledge and learning opportunities would also incentivise and boost momentum for, and ownership of, growth-enhancing reforms.

## RECOMMENDATION 2: TAILOR SUPPORT TO THE EU'S MOST VULNERABLE REGIONS

There is a strong case to be made for a 'bottom-up' reform support orientation, managed by DG REFORM via the TSI and currently available on a voluntary basis to all member states. Tailoring support to address local (and multifaceted) needs requires a package of measures, specifically (and holistically) designed to address the challenges of the EU's most vulnerable territories. An inclusive approach that encompasses the following elements would help to generate long-term local ownership of the reform agenda:

- **Improve EU regions' connection to the TSI** by encouraging member states' requests to account for the needs of their territories, and engaging in dialogue between member states, regions and DG REFORM.
- **Incentivise and build capacity for a green and digital recovery.** This involves increasing support for improved governance and administrative capacity (e.g. strengthening local leadership skills and resources) and improving financial management and investment capacity for sustainable financing.
- **Promote opportunities for joint action to enhance reform cooperation and coherence across EU territories.** By sharing their challenges and experiences of reform, the EU's most vulnerable regions can benefit from external insights and practices. There are lessons to be learned from the Just Transition Platform,<sup>13</sup> which is generating high levels of cooperation, acceptance and momentum across the regions targeted for energy transition support.

## RECOMMENDATION 3: ALIGN COHESION POLICY AND THE RECOVERY AND RESILIENCE FACILITY

As mentioned, there are opportunities for CP and the RRF to be complementary in their support and funding. If planned and implemented well, there is scope for greater impact and value than if kept separately. However, the current EU debate on this topic is split between the sceptics and champions of CP. History tells us that 'digging in' to retracted positions is unlikely to create a new momentum or enthusiasm for CP. To achieve this objective, two measures are key:

- **Develop and strengthen the relationship between CP and the RRF** and move away from a conflictual narrative. This can be achieved by identifying their synergies and complementarities while promoting CP's structural transformation role.
- **DG REFORM should lead efforts to facilitate, design and implement a strong alignment** between reform and investment targets through the national RRFs and regional CP funds. This would help promote the case for the two instruments working in tandem.

The EU's green and digital recovery strategy fails to account for the specific needs of its poor and low-growth regions. Existing disparities and fragmentation challenges across the Union could widen or even become entrenched, casting new doubts on the EU's ability and commitment to strengthen its convergence agenda. The fallout could lead to a rise in territorial and political tensions while leaving many vulnerable places behind. This Policy Brief outlines an agenda for a new EU initiative that champions reform support for these vulnerable territories and improves their prospects for a digital and green recovery.

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<sup>1</sup> See Pilati, Marta and Alison Hunter (2020), "[EU lagging regions: state of play and future challenges](#)", PE 652.215, Brussels: European Parliament.

<sup>2</sup> See Pilati, Marta (2021), "[National Recovery and Resilience Plans: Empowering the green and digital transitions?](#)", Brussels: European Policy Centre/Konrad-Adenauer-Stiftung.

<sup>3</sup> Pilati and Hunter (2020), *op.cit.* GDP analysis based on Eurostat, "Gross domestic product (GDP) at current market prices by NUTS 2 regions", nama\_10r\_2gdp (accessed 15 June 2020). The unit is purchasing power standard (EU28) per inhabitant. The growth rates were calculated between 2000 and 2018, the latest available year. France and Poland were excluded because of data unavailability. The UK was not subject to the analysis.

<sup>4</sup> Organisation for Economic Co-operation and Development (2020), "[The territorial impact of COVID-19: Managing the crisis across levels of government](#)", Paris, p.71.

<sup>5</sup> These regions are identified in Pilati and Hunter (2020), *op.cit.* N.B. Portugal has made significant progress in recent years and could be shifting its long-term trajectory towards better growth performance.

<sup>6</sup> Pilati and Hunter (2020), *op.cit.*

<sup>7</sup> Organisation for Economic Co-operation and Development (2020), *op.cit.* The regions with the least possibility for remote working include Northern and Western Ireland, Central Greece, Basilicata and the Balearic Islands. They are all identified as extremely low-growth regions in Pilati and Hunter (2020), *op.cit.*

<sup>8</sup> Pilati and Hunter (2020), *op.cit.*

<sup>9</sup> E.g. Rodríguez-Pose, Andrés (2017), "[The revenge of the places that don't matter \(and what to do about it\)](#)", *Cambridge Journal of Regions, Economy and Society*, Volume 11, Issue 1, pp.189-209.

<sup>10</sup> Ferreira, Elisa, "[Informal Meeting of Ministers of Cohesion - Press Conference - Introductory remarks](#)", European Commission, 18 May 2021.

<sup>11</sup> Huguenot-Noel, Robin; Alison Hunter; and Fabian Zuleeg (2018), "[Research for REGI Committee – Future links between structural reforms and EU cohesion policy](#)", PE 617.481, Brussels: European Parliament.

<sup>12</sup> This strand is similar to the original intention of Annex D of the European Semester: "this year's country reports also have a more granular analysis of the regional disparities and bottlenecks to investment." European Commission (2019), [2019 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation \(EU\) No 1176/2011](#), COM(2019) 150 final, Brussels, p.14.

<sup>13</sup> European Commission, "[Just Transition Platform](#)" (accessed 16 June 2021).