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Economic Policy

ECON

Potential impacts of COVID-19 on regions and cities of the EU



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Acronyms

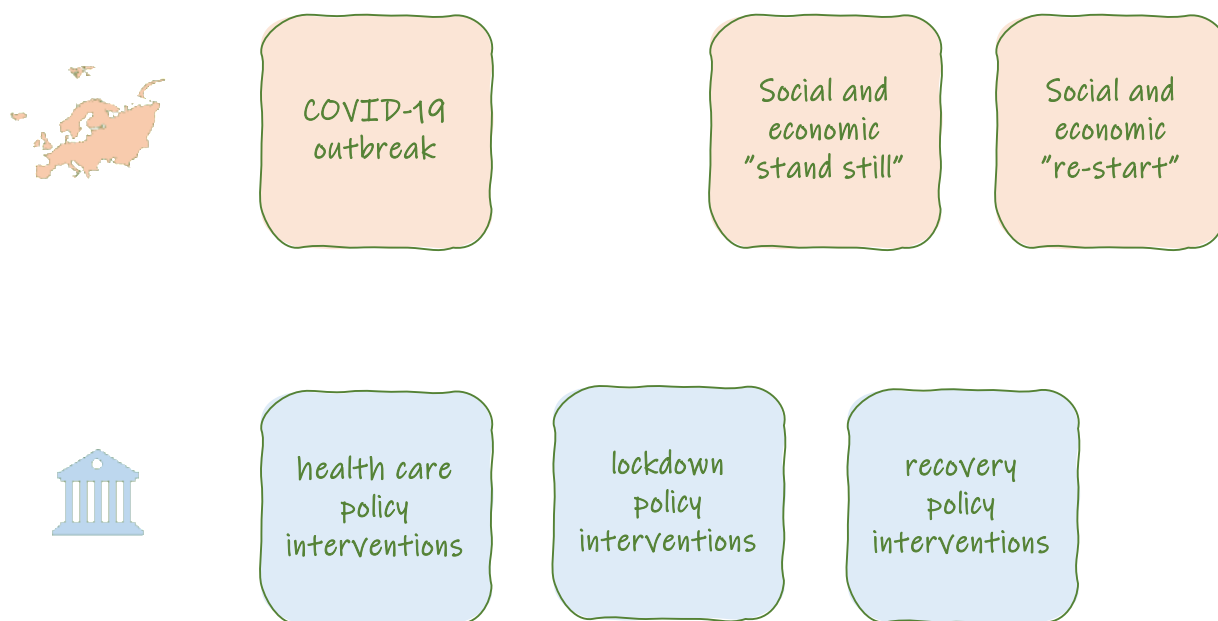
CAP – Common Agricultural Policy
CF – Cohesion Fund
CoR – European Committee of the Regions
CPRM – Conference of Peripheral and Maritime Regions
CRII – Coronavirus Response Investment Initiative
CRII+ – Coronavirus Response Investment Initiative Plus
CSR – Country Specific Recommendations
EAFRD – European Agriculture Fund for Rural Development
EFSD – European Fund for Sustainable Development
EFSI – European Fund for Strategic Investment
EIB – European Investment Bank
EIF – European Investment Fund
EMFF – European Maritime and Fisheries Fund
ERDF – European Regional Development Fund
ESF – European Social Fund
ESIF – European Structural and Investment Funds
ETC – European Territorial Cooperation
FEAD – Fund for European Aid to the Most Deprived
GDP – Gross Domestic Product
ILO – International Labour Organisation
JRC – Joint Research Centre
JTF – Just Transition Fund
LFS – Labour Force Survey
LRA – Local and Regional Authorities
MFF – Multiannual Financial Framework
MS – Member State
NRP – National Reform Programmes
OP – Operational Programme
QoG – Quality of Governance
REACT-EU – Recovery Assistance for Cohesion and the Territories of Europe
resceEU – European Civil Protection and Humanitarian Aid Operations
SDG – Sustainable Development Goals
SME – Small and Medium-sized Enterprise
ST.DEV – Standard Deviation
TAIEX- Technical Assistance and Information Exchange instrument
UN – United Nations

Summary

What potential impacts will the COVID-19 pandemic have on regions and cities in the EU? Based on COVID-19 outbreaks, lockdown policies and the debate on recovery measures as at June 2020, this report provides some answers. It helps build a better understanding of the territorial dimension of COVID-19 policy responses. It also looks to contribute to shaping EU recovery measures that appropriately reflect Europe's territorial diversity, the need for a recovery in line with the UN Sustainable Development Goals (SDGs) and for a multilevel governance approach.

The territorial impacts are highly asymmetric both across Europe and within countries in at least three ways (see Figure 1).

Figure 1 COVID-19 geographies and policy responses



Source: own elaboration.

The outbreak of COVID-19 has a territorial dimension. Clear variations include places with a high intensity of infections and death tolls along with places which hardly seem affected. This has led to policy interventions improving the readiness of the healthcare system along with large scale responses in terms of lockdowns.

The geographic impacts of the social and economic standstill resulting from lockdowns are diverse and differ from the territorial patterns of infections or deaths. Although most policy responses were national, they resulted in very different regional situations. The socio-economic asymmetry of consequences

across Europe, countries and regions is largely shaped by diverse regional characteristics.

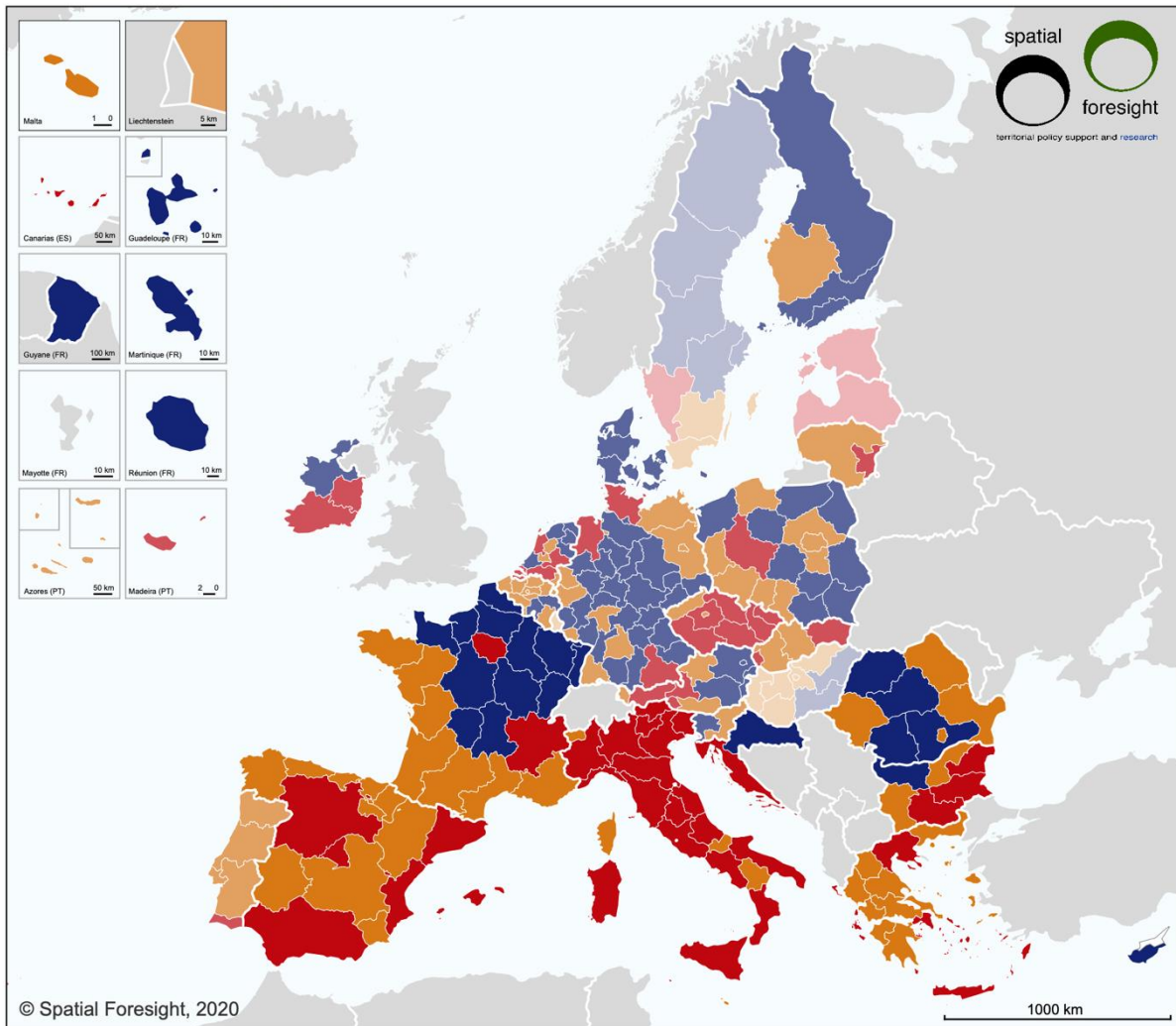
The impacts of lockdowns led to a wide range of recovery policies, with many still in the making. These policies – whether they are managed at EU or national level – also come with varied territorial impacts. In an ideal scenario, the territorial impacts of recovery policy would be a mirror image of the territorial impacts of lockdowns, with a certain surplus in areas which faced development challenges prior to COVID-19.

To understand the potential regional impacts of COVID-19 policy response (i.e. lockdowns), the study looks into regions' exposure and sensitivity to lockdown measures taken by EU Member States.

Exposure means the length and stringency of lockdown measures from the beginning of February to the end of May 2020. Sensitivity is how this lockdown affects regional development, reviewed through 11 regional characteristics. These are employment in risk sectors, tourism reliance, international trade reliance, share of people at risk of poverty, share of youth unemployment, share of people employed in micro-enterprises, share of self-employment, share of cross-border employees, regional GDP, national debt and quality of government.

Bringing together regional exposure and sensitivity enables a first understanding of potential regional impacts resulting from COVID 19 policy responses. This shows highly diverse regional patterns, with most countries including regions that have different sensitivities (see map 1). The territorial pattern of impacts from COVID-19 policy responses differs from the usual territorial patterns for EU regional policies. COVID-19 and the policy responses produce multifaceted and complex impacts for regional development. They underline the high level of regional and local interdependencies in Europe and cannot be explained by a single indicator. Indeed, they call for higher levels of place-sensitive policy responses, taking into account a region's economic structure, structural challenges, and social profile.

Map 1 Potential negative impacts of COVID-19 lockdowns

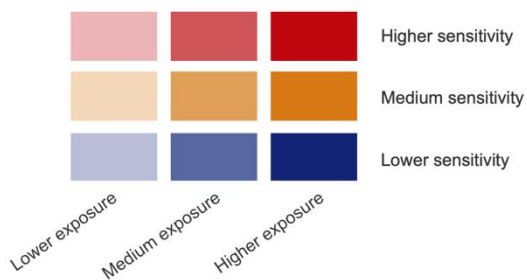


Administrative boundaries: Eurostat GISCO, NUTS 2 (2016)

Source: own elaboration based on the following data inputs

Potential negative impacts of COVID-19 lockdowns, June 2020

Impacts in terms of exposure and sensitivity



Sensitivity

Employment in risk sectors of the economy: share of persons employed over total population in the age group 15-64 (Eurostat); Tourism sector reliance: Capacity of collective tourist accommodation (Eurostat); Regional foreign trade: Export/Import to foreign countries as % of GDP (JRC); People at risk of poverty and social exclusion (Eurostat and ESPON 2020 Database); Youth unemployment (Eurostat); Regional GDP per capita (Eurostat); National debt (Eurostat); Quality of Government (University of Gothenburg); Employment in micro enterprises (ESPON); Self-employment level (Eurostat); Cross-border employment (Eurostat)

Exposure

Stringency and length of government restrictions (Oxford COVID-19 government response tracker - Blavatnik School of Government); Reduction in hours worked (Eurofund survey)

Looking beyond the aggregated figures in the map offers initial insights on where sensitivities prevail in Europe. For example there are many micro-enterprises and self-employed in Southern and Eastern Europe, a high reliance on tourism in large parts of the Mediterranean and Alpine areas, a reliance on international trade and supply chains in many parts of Central and Eastern Europe, areas with high employment in risk sectors in large parts of Central and Northern Europe, as well as in single areas in the South.

Every crisis also holds opportunities. Such opportunities are largely connected to the capacity to adapt to the changing economic conditions posed by COVID-19 policy responses and mainly build on preconditions of digitalisation. This includes access to digital infrastructure, e-governance, preparedness for teleworking as well as employment in the information and communication sector. In consequence, the territorial pattern for potential brought about by COVID-19 policy responses resembles the well-known pattern of European Cohesion Regions and urban-rural differences.

A look into selected 2020 National Reform Programmes, Country-Specific Recommendations (CSRs) and EU recovery measures allows first insights on what might come next. The various COVID-19 responses and recovery plans imply more centralised decision making and funding at national level with regional and local authorities being less involved. Indeed, territorial disparities within countries are only vaguely addressed, if at all.

Furthermore, sustainable development (including SDGs and the Green Deal) is referred to throughout the debate and policy documents. However, whether that will materialise in a recovery remains to be seen. There is a significant risk that, in case of doubt, faster recovery will be prioritised over long-term structural changes towards a more sustainable Europe.

For EU recovery measures, there is a risk that the prevailing attitude will be to do more of what has been done in the past and do it with greater flexibility. This poses a risk of prioritising ‘easy short-term’ investments over strategic long-term structural changes. Furthermore, there is a risk of dismantling the governance frameworks of EU Cohesion Policy. This is likely to have negative effects on the effectiveness and involvement of local and regional authorities.

The policy recommendations put forward in the study are closely interrelated, and together point to the need for greater place-sensitive policy making including local and regional decision makers and their tacit knowledge. There is also a need for more cooperation between cities and regions in Europe as well as stronger coordination of policy responses and actions at European level.

Recommendations include:

- **Triple targeting of EU recovery funding:** Recovery funding must be targeted towards cities and regions with (a) highly affected sectors, (b) structural challenges, and (c) social challenges.
- **More intense cooperation between cities and regions in Europe:** learning from each other, sharing healthcare capacities, and supporting each other in the recovery process may ease the burden and increase resilience. To work smoothly in times of crisis, cooperation patterns and trust need to be built up over a longer period of time.
- **Ensure long-term transition to a sustainable and digital Europe:** The need to boost economic recovery holds the potential for a transition towards a more sustainable and digital Europe. To ensure that the recovery process is used to accelerate this transition, the necessary requirements should be introduced in the funding conditions.
- **Balance short term flexibility with medium-term quality:** Many recovery measures increase the flexibility of the current regulatory framework, including for state aid or Cohesion Policy. Increased flexibility comes with risks which need to be addressed in decision making and assessed for possible unintended side-effects.
- **Strengthen governance and administrative capacities:** High quality government and adequate administrative capacities are important development factors. They are decisive for how crisis and recovery processes are managed and also affect the outcome of recovery measures.
- **Strengthen a European framework for bottom-up visions:** Good governance and government can react promptly to new situations, but it also has a clear vision about the desirable future for a city, region or country. In particular the recovery path towards a sustainable future for all places and people needs a shared vision of this future.
- **Stimulate local and regional testing and experimenting:** New ideas and approaches for local and regional development and resilience are needed. There is no blueprint and there will be no one-size-fits-all solution. Therefore, local and regional players need to explore new paths, including testing and promoting imaginative ideas.

Introduction

COVID-19 has a territorial dimension and impacts on regions and cities in the EU vary. This report helps to better understand the territorial dimension of COVID-19 policy responses and looks to contribute to shaping EU recovery measures so they appropriately reflect Europe's territorial diversity, the need for a recovery based on the UN Sustainable Development Goals (SDGs) and a multilevel governance approach. The report reflects the development of COVID-19, policy responses to it and the debate on recovery as at early summer 2020.

The first part of the report presents a territorial analysis of diverse implications of COVID-19 policy responses. This builds on earlier work carried out by Spatial Foresight (Böhme & Besana, 2020) and presents new maps based on a revised exposure analysis and more nuanced sensitivity analysis.

The second part of the report presents initial findings concerning multi-level governance and sustainability in recovery policies. This is based on an assessment of National Reform Programmes and Country Specific Recommendations in six selected countries covering the integration of a territorial dimension and the UN Sustainable Development Goals (SDGs).

The third part discusses EU recovery measures from the perspective of local and regional authorities. It starts with an overview of recovery measures within EU Cohesion Policy and the wider context of 'Next Generation EU' proposals. For selected measures there is a discussion on potential implications for local and regional development in Europe, as well as the role of local and regional authorities in the design and implementation of recovery measures.

The fourth chapter contains lessons learnt. This includes suggestions for key features which should be strengthened to (a) increase local and regional resilience to the healthcare challenges of a pandemic, (b) support a sustainable socio-economic recovery and future for all places and people, and (c) increase governance and administrative capacities in European regions and cities to handle the pandemic, recovery process and potential that comes with the crisis.

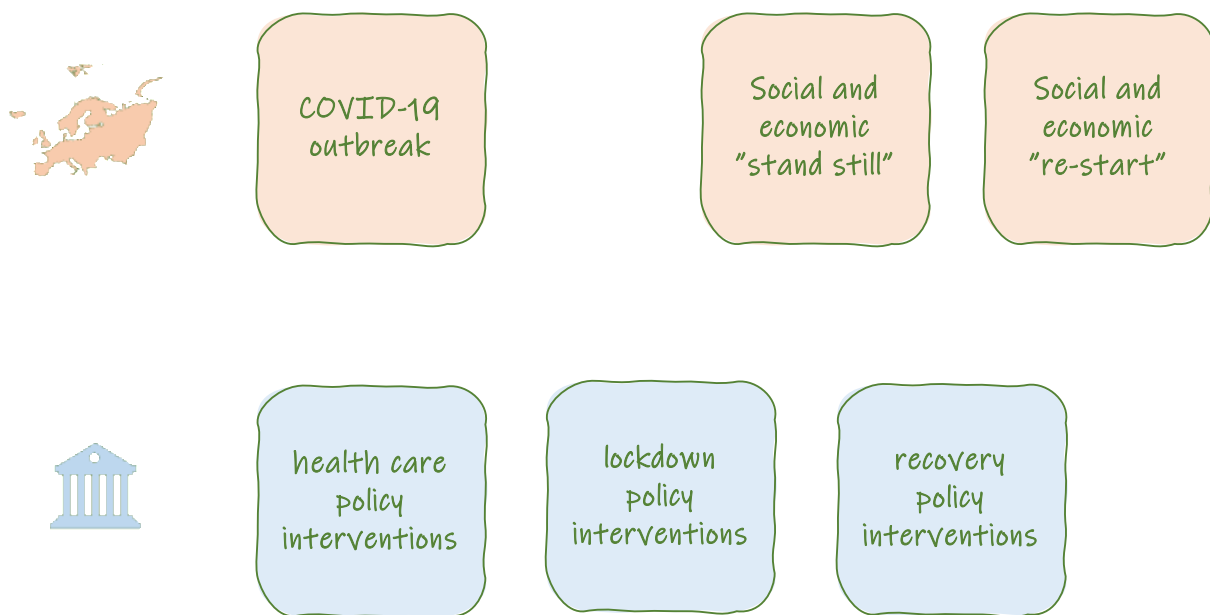
The study is based on document analysis, data analysis, interviews with regional and national players in some EU Member States as well as wider debates within the project team and with colleagues from the CoR, the European Commission and OECD in seminars organised by the CoR.

1 Territorially diverse implications of COVID-19 policy responses

COVID-19 has a territorial dimension. The pandemic has a huge impact on public health and has triggered many policy responses to ensure public health. These policy responses impact economies and labour markets that have suffered unprecedented shocks. First estimates show that the crisis is causing the most severe reduction in economic activity and working time since the Second World war (International Labour Organization, 2020b).

All this comes with a strong territorial dimension (Böhme & Besana, 2020). The territorial impacts are highly asymmetric across Europe and within countries in at least three ways (see Figure 2).

Figure 2 COVID-19 geographies and policy responses



Source: own elaboration.

The outbreak of COVID-19 has a territorial dimension. This becomes obvious when looking at hotspots of the outbreak. There are clear territorial variations, with places that have highly intense infections and death tolls as well as places which hardly seem affected. The territorial variations and pattern are visible from the regional maps on the JRC COVID-19 monitoring platform¹. This has led to policy interventions improving the readiness of the healthcare system and to large scale policy responses in terms of various lockdown interventions.

¹ See <https://covid-statistics.jrc.ec.europa.eu/>

The geographic impacts of the social and economic standstill due to lockdown measures are very diverse as will be shown in this report and they differ from the territorial patterns of outbreaks. It is not necessarily areas with the highest numbers of COVID-19 infections or death which also are most affected by the socioeconomic impacts of lockdown measures. Although most policy responses were at national level with national coverage, restrictive measures resulted in very different regional situations. Consequently, some regions will face more intense and/or longer-lasting consequences than others (e.g. SWD(2020) 98 final, 2020). The socio-economic asymmetry of consequences across Europe, countries and regions is largely shaped by the diversity of regional socio-economic characteristics (OECD, 2020b). Variations in the impacts of policy responses show the territorial impacts of COVID-19.

The impacts of the lockdown measures led to a wide range of recovery policies, most of which are still being formulated. These policies, managed at both EU and national levels, will also have varied territorial impacts. In an ideal scenario, the territorial impacts of recovery policy would mirror the territorial impacts of lockdown measures, with a surplus in areas which faced development challenges prior to COVID-19.

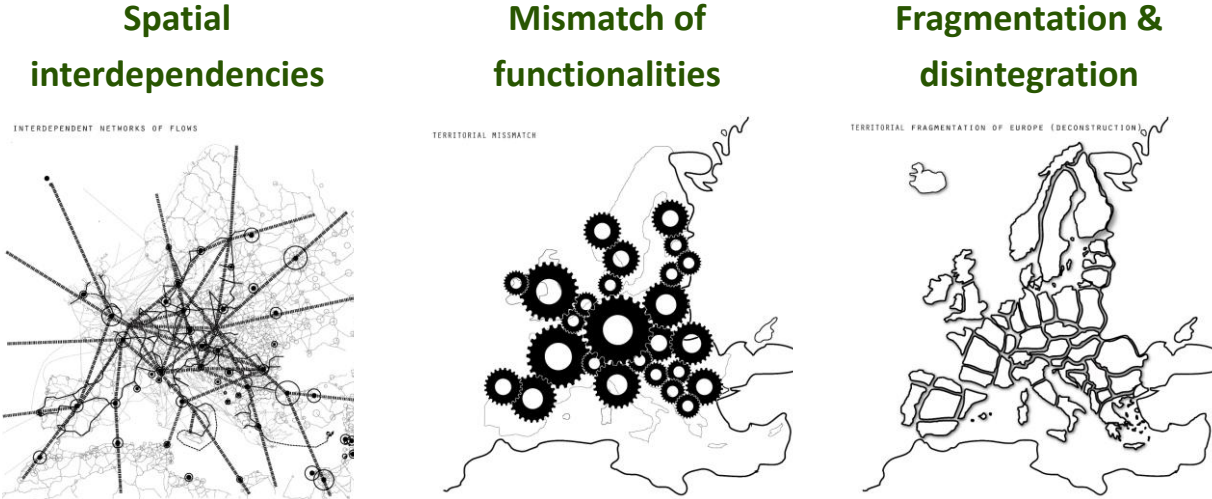
In order to understand how COVID-19 changes economic development conditions and the policy measures needed to cushion the impacts and support recovery, we need to understand the territorial diversity of these impacts (Böhme & Besana, 2020). In an integrated Europe, where places and territorial development paths are highly interdependent (ESPON, 2019), we need to do so in European-wide perspective.

Although COVID-19 clearly has territorial impacts, the pandemic itself ignores territorial borders. Therefore, it is important to understand territorial implications of the pandemic in a larger territorial context acknowledging territorial interdependencies (Böhme, 2020). Lähtenmäki-Smith and Böhme (2020) stress that a successful response to COVID-19, which ignores societal or territorial borders, must build on cooperation. Also, analysis of COVID-19 impacts needs to go beyond national borders and take a European approach.

The territorial dimensions of COVID-19 confirm earlier findings of ESPON (2019) on key challenges shaping local and regional development in Europe (see Figure 3). The increasing interdependence of places has become clearly visible through the territorial spreading of COVID-19, as well as the impacts of lockdown measures. This interdependence will also be seen in the recovery. European regions and cities are interwoven in tight networks of mutual interdependence, where what happens in one place affects developments in other places.

The pandemic has also illustrated the mismatch of local, regional and national administrative borders with the functional geographies of people’s everyday life. Again, this could be seen during the outbreak which followed functional interactions and networks, rather than administrative delineations. Also, the disruptive effects that closing regional and national borders had on integrated labour markets and the provision of services of general interest (e.g. healthcare) illustrate the mismatch of functional and administrative geographies. The sad cases of unilateral border closures and competition – on the global market – for healthcare equipment and staff between European countries, regions and cities showcase territorial fragmentation and disintegration. All this gives a first idea of the complex territorial dimension of COVID-19 and its policy responses.

Figure 3 Territorial interdependencies, mismatches and fragmentation



Source: ESPON (2019).

During the first half of 2020 a wide range of discussion papers and analysis have emerged trying to better understand the territorial dimensions of the pandemic and its policy responses. This study builds on work by Böhme & Besana (2020) and further develops the analysis to complement the richness of international studies. These include comparing national figures (e.g. European Commission, 2020b; International Labour Organization, 2020b; OECD, 2020b; Smith, Erin McAweeney, & Léa Ronzaud, 2020), national studies (Dorn, Fuest, Göttert, Krolage, Lautenbacher, Link, Peichel, Reif, Sauer, Stöckli, Wohlrabe, & Woolmerhäuser, 2020; e.g. Ehrentraut, Koch, & Wankmül, 2020; OECD, 2020a; Seils & Emmeler, 2020; The three regional assemblies of Ireland, 2020; WIFO, 2020), and papers addressing the cross border dimension (e.g. Cyrus & Ulrich, 2020).

Understanding exposure and sensitivity

Inspired by the Territorial Impact Assessment (Böhme & Besana, 2020; ESPON, 2013; Essig & Kaucic, 2017; Gaugtisch, Dallhammer, Hsiung, Holstein, Besana, Zillmer, Kruljac, & Uljed, 2020) the analysis methodology provides a rough snapshot of the exposure and sensitivity of European regions to COVID-19 policy responses. Exposure and sensitivity are understood as follows (Böhme, Lürer, & Holstein, forthcoming):

- **Exposure:** Reviewing different policy components, exposure is how much a region will be affected by the policy (positively or negatively)?
- **Sensitivity:** How much regional development will be affected due to specific regional characteristics and endowments?

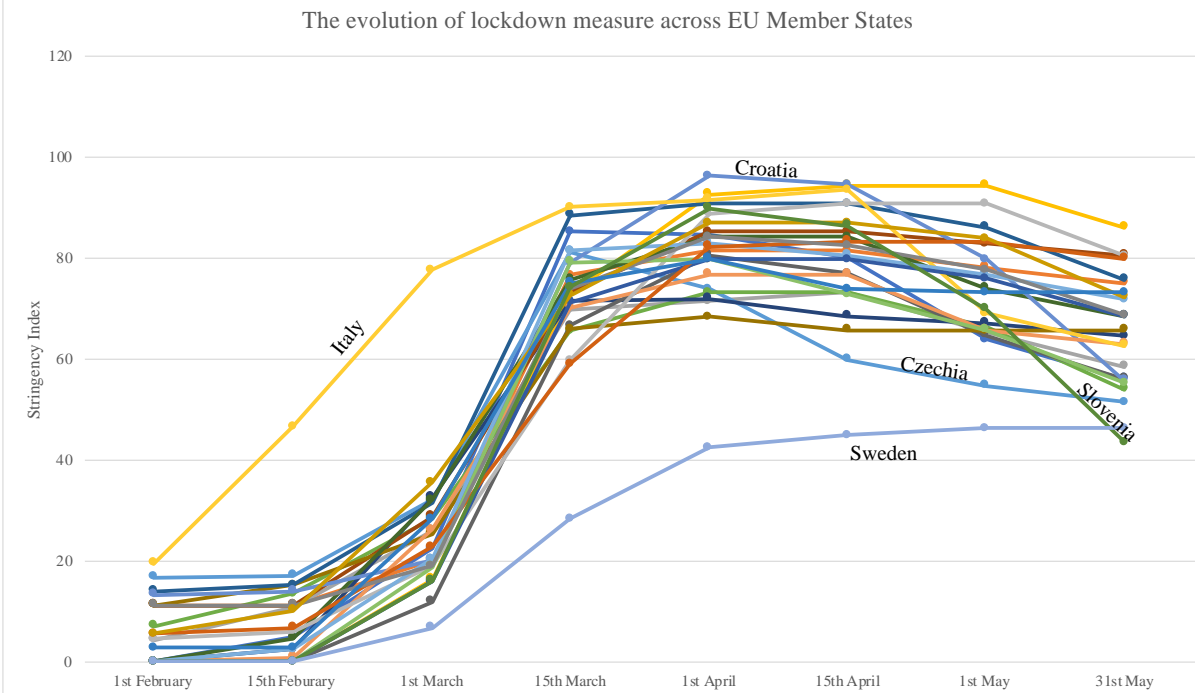
Sections 1.3, 1.4 and 1.6 outline the methodological approach and its application in the analysis, including the choices of indicators.

1.1 Potential negative regional impacts

The territorial exposure and sensitivity to COVID-19 policy responses highlight considerable and territorially diverse implications. These need to be reviewed when assessing the impacts of COVID-19 and discussing measures to mitigate impacts and support recovery.

COVID-19 policy responses vary between regions and countries in Europe, both the measures (e.g. stringency of lockdowns) and the length these measures have been in place (e.g. length of the lockdowns). In short, exposure to COVID-19 policy responses has varied, as illustrated in Figure 4. While overarching lockdown measures have been taken at national level, there are considerable variations within countries. Some cities or regions had longer or more stringent lockdowns than others and some lockdowns have been reintroduced in the light of increasing local or regional infections. For this study, the focus is on national lockdowns from beginning of February to the end of May 2020. Detailed explanations of how we have assessed territorial exposure to COVID-19 policy responses for this study are in section 1.3.

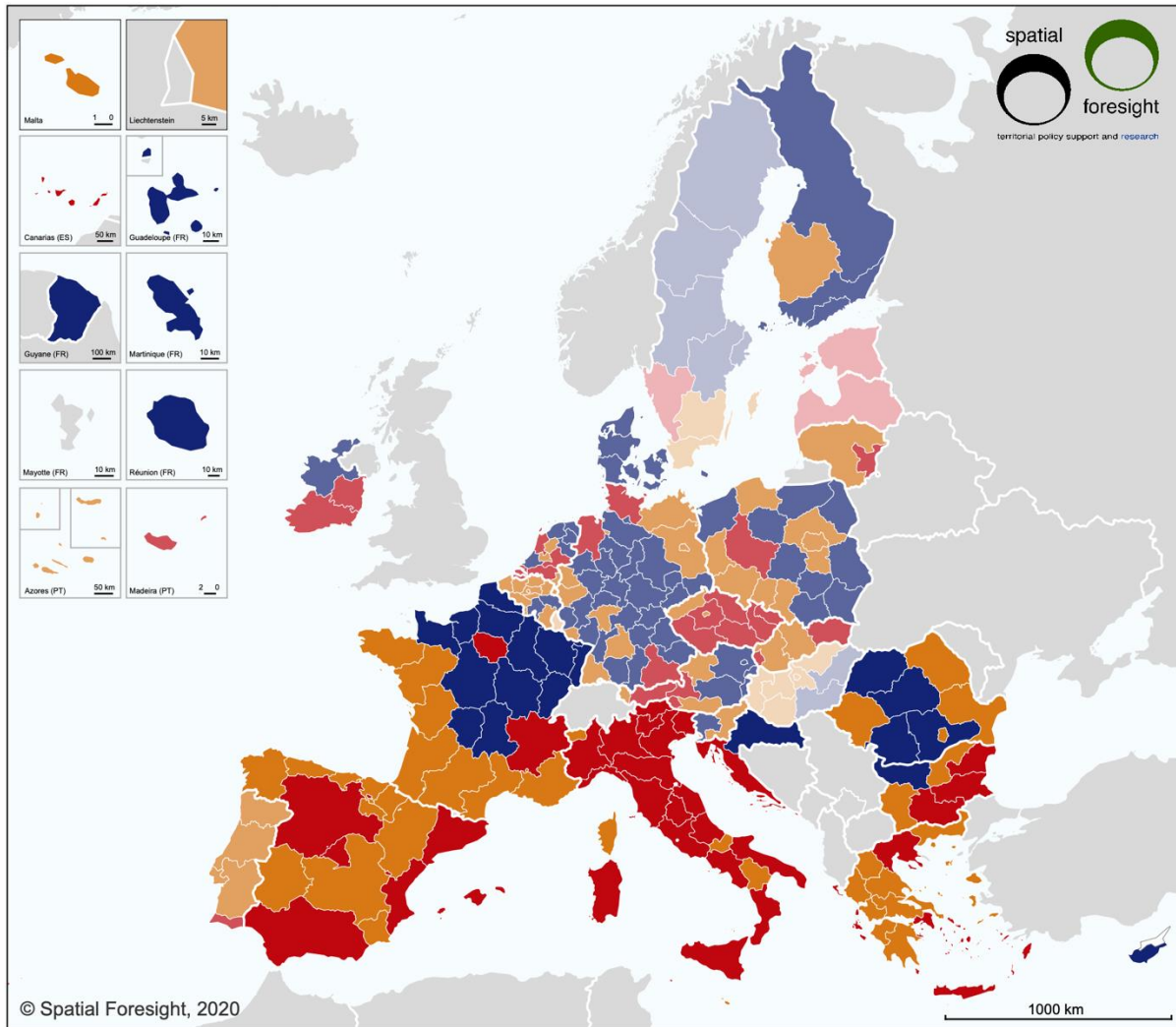
Figure 4 Stringency and length of lockdown measures by EU Member State



Source: own elaboration based on Blavatnik School of Government data

Being exposed to the same COVID-19 policy response does not necessarily lead to the same impacts. To understand how policy responses impact regions, the regional sensitivity to these policy responses needs to be considered. The sensitivity of a region, or how much its development is affected, depends on the specific regional characteristics and endowments. For this study 11 regional characteristics have been considered to better understand sensitivity to COVID-19 policy responses. These are employment in risk sectors (see Table 2 on page 28), tourism reliance, international trade reliance, share of people at risk of poverty, share of youth unemployment, share of people employed in micro-enterprises, share of self-employed, share of cross-border employees, GDP, national debt and quality of government. Detailed explanations of these indicators and how we assessed territorial sensitivity to COVID-19 policy responses for this study are in section 1.4.

Map 2 Potential negative impacts of COVID-19 lockdowns

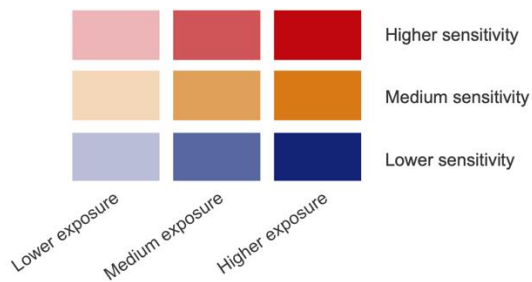


Administrative boundaries: Eurostat GISCO, NUTS 2 (2016)

Source: own elaboration based on the following data inputs

Potential negative impacts of COVID-19 lockdowns, June 2020

Impacts in terms of exposure and sensitivity



Sensitivity

Employment in risk sectors of the economy: share of persons employed over total population in the age group 15-64 (Eurostat); Tourism sector reliance: Capacity of collective tourist accommodation (Eurostat); Regional foreign trade: Export/Import to foreign countries as % of GDP (JRC); People at risk of poverty and social exclusion (Eurostat and ESPON 2020 Database); Youth unemployment (Eurostat); Regional GDP per capita (Eurostat); National debt (Eurostat); Quality of Government (University of Gothenburg); Employment in micro enterprises (ESPON); Self-employment level (Eurostat); Cross-border employment (Eurostat)

Exposure

Stringency and length of government restrictions (Oxford COVID-19 government response tracker - Blavatnik School of Government); Reduction in hours worked (Eurofund survey)

Bringing together regional exposure and sensitivity enables a first understanding of potential regional impacts due to COVID 19 policy responses. This analysis highlights very diverse regional patterns and most countries having regions with different sensitivities (see Map 2). Furthermore, the analysis also shows that the regional impact of COVID-19 policy responses does not necessarily correspond to regional patterns of COVID-19 infections and death as shown in the work of JRC². Indeed, COVID-19 outbreaks and impacts due to COVID-19 policy responses are completely separate phenomena with different territorial patterns.

The geography of potential regional impacts due to policy responses does not resemble the usual territorial patterns referred to in regional policies:

- **Lagging regions and cohesion regions:** The potential regional impacts of COVID-19 policy responses show considerably diverse sensitivities within most EU Member States. Thus, they differ from the standard pictures of Cohesion Policy and lagging regions.
- **Places left behind:** The geography of discontent (Dijkstra, Poelman, & Rodríguez-Pose, 2018) also shows a very different geographical pattern to the potential regional impacts of COVID-19 policy responses. It seems the impacts on left behind places are similar to other places.
- **Middle income gap:** The geography of regional risks of being trapped in the middle-income segment and facing problems from a lack of economic progress and dynamism (European Commission, 2020e) differs completely to the geography of potential regional impacts of COVID-19 policy responses.
- **Rural-urban:** There are high and low sensitivities to COVID-19 policy responses in both urban and rural areas, so the usual urban-rural differentiation does not apply (EUROSTAT, 2018).
- **Accessibility:** The traditional core-periphery pattern of European accessibility and connectivity (i.e. how many people can be reached in a certain amount of time) (ESPON, 2017) is also different to the sensitivities to COVID-19 policy responses.
- **Digitalisation:** High levels of digital infrastructure and companies in the digital industry may prove to be advantageous in times of lockdown (see further down in this section). Nevertheless, European regional patterns of digitalisation and digital preparedness do not fully correspond to potential regional impacts of COVID-19 policy responses.

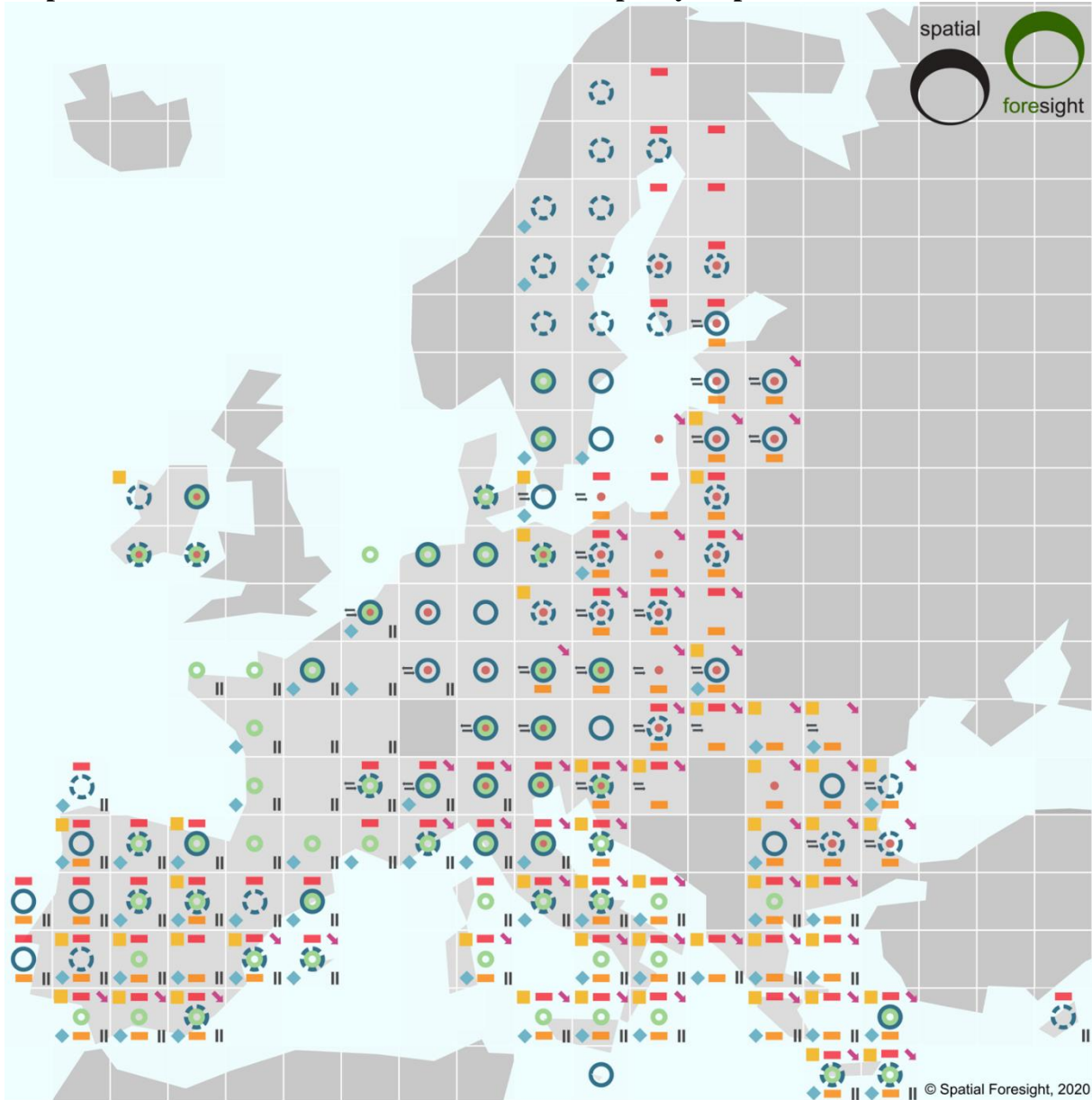
² See JRC COVID-19 monitoring platform at <https://covid-statistics.jrc.ec.europa.eu/>

- **Innovation:** Some regions with high innovation and R&D capacities are highly sensitive to COVID-19 policy responses (e.g. Gothenburg or Oberbayern) and some have low sensitivity (e.g. Copenhagen, Helsinki or Stockholm). In the same way regions with low innovation capacities can have high, medium and low sensitivities to COVID-19 policy responses (European Commission, 2019, 2020c).
- **Demographics:** Elderly people are clearly at risk from COVID-19 infections. Nevertheless, demographics and regional age structures do not explain the pattern of potential regional impacts of COVID-19 policy responses. The share of younger people entering the labour market and the share of people living in households with comparably low household incomes affect regional sensitivity to some degree. However, this is not visible in the overall pattern.
- **Healthcare:** The regional variations of healthcare are no doubt important for understanding the COVID-19 impacts, including infections and deaths. Still, potential regional impacts of COVID-19 policy responses differ to these. While a healthier population or better healthcare system certainly is positive for a region, there is no link between that and the potential socio-economic sensitivities to COVID-19 policy responses (i.e. lockdown).

Focusing on the economic downturn following COVID-19 in terms of GDP, the forecast presented by JRC (SWD(2020) 98 final, 2020) shows a contraction across Europe which is closer to the geography of Cohesion Regions (see also Map 6 on page 77). Many regions in Central and Eastern Europe as well as in Greece, Spain, Italy, Portugal and Ireland are expected to experience larger relative declines in GDP than countries in the core of Europe. The complexity of COVID-19 policy response (see Map 4) shows more variations, going beyond the structural characteristics of regional economies.

Summing up, the potential regional impacts of COVID-19 policy responses differs substantially to the usual geographical patterns of regional development. COVID-19 and the policy responses produce multifaceted and complex impacts on regional development. They underline the high level of regional and local interdependencies in Europe and cannot be explained by a single indicator. Indeed, more place-sensitive policy responses should take into account a region's economy, structural challenges, and social profile (see chapter 4).

Map 3 Potential sensitivities to COVID-19 policy responses



Regional sensitivity to COVID-19 policy responses

The map reflects the top or bottom 1/3 of European regions

- Very high share of employment in risk sectors
- High share of employment in risk sectors
- High reliance on tourism
- High reliance on foreign trade
- High share of self-employment / micro-enterprises
- High levels of youth unemployment
- High share of people at risk of poverty
- Low quality of government
- Low regional GDP
- High public debt
- High share of cross-border employment

Source: own elaboration based on the following data inputs

Employment in risk sectors of the economy: share of persons employed over total population in the age group 15-64 (Eurostat); Tourism sector reliance: Capacity of collective tourist accommodation (Eurostat); Regional foreign trade: Export/Import to foreign countries as % of GDP (JRC); People at risk of poverty and social exclusion (Eurostat and ESPON 2020 Database); Youth unemployment (Eurostat); Regional GDP per capita (Eurostat); National debt (Eurostat); Quality of Government (University of Gothenburg); Employment in micro enterprises (ESPON); Self-employment level (Eurostat); Cross-border employment (Eurostat).

Map 3 depicts some sensitivity aspects included in Map 2. Focusing on the top 1/3 of European regions for each indicator, it shows the sensitivity of an area. The information is shown in a grid structure rather than the usual NUTS regions as there is a considerable mismatch between administrative and functional geographies (see above) for the impacts of COVID-19 policy responses. In rough terms, the map shows where sensitivities prevail. This includes the high level of micro-enterprises and self-employed in Southern and Eastern Europe, high reliance on tourism in large parts of the Mediterranean and Alpine areas, the reliance on international trade and supply chains in large parts of Central and Eastern Europe, as well as the areas with substantial employment in risk sectors (see Table 2 on page 28) in large parts of Central and Northern Europe, as well as individual areas in the South.

While the new territorial pattern of potential regional impacts from COVID-19 policy is not easy to explain, reviewing the underlying complexity highlights several possible territorial stories. Interviews conducted during this study reveal possible ways to increase place-sensitive policy making:

- **Metropolitan areas – strongly hit and speedy recovery:** The degree metropolitan areas are impacted by COVID-19 policy responses varies widely. Those that have been strongly impacted are expected to be able to ‘kick-back’ quickly due to their economic structures. Thus, these areas might see a harsh impact but also a quicker recovery compared to many non-metropolitan areas.
- **Isolated places – cut off for good and bad:** The impacts of COVID-19 policy responses differs between well-connected central places and more peripheral and isolated places (e.g. islands). For more isolated places, the lockdown sometimes created considerable cuts in connectivity and supply chains, e.g. flight connections. They were cut off with good (less infections traveling there) and bad (supply difficulties) impacts. Their road to recovery will probably differ as well.
- **Tourist area – long-lasting memories:** Tourism areas experienced a standstill in most parts of Europe and their road to recovery will often be more difficult. Tourism is not expected to quickly return to pre-COVID-19 levels. The recovery might also differ in areas with major regional and national recreation compared to those with a strong focus on international tourism. The type of tourism (event, mass tourism, relaxation, nature tourism, etc.) will also play a role in the recovery as well as accessibility to the area (flights, trains, roads).

- **Interconnected industrial areas – supply chains & possible restructuring:** Areas with local businesses highly dependent on imports of certain components, or highly dependent on exports to international markets have been particularly affected by lockdowns in other parts of Europe or the world, as well as by interrupted transport connections. While the supply chains are getting up and running again, it might take longer for the demand side to pick up. Furthermore, some regions may be affected – for good and bad – by relocalisation debates, reducing the vulnerability of supply chains or attempts to ensure some essential goods are produced in a region or country.
- **Small business area – uncertain baby steps:** Regions with high shares of self-employment and SMEs may face particular sensitivities, depending on the sectors where they are active. For example, culture and entertainment-based areas will have a longer road to recovery, and support often focuses on large businesses (e.g. airlines) which only partly helps SMEs and the self-employed.
- **Territorial fragmentation – ‘my’ nation & ‘my’ region first:** Although there has been a lot of talk about ‘solidarity’ many COVID-19 policy responses were characterised by attitudes such ‘my’ nation & ‘my’ region first. Examples for this are unilateral closures of national borders, competition for healthcare equipment and staff between European countries, regions and cities, as well as debates about whether visitors from certain regions or countries are welcome. In many countries there have been debates in rural areas and regions with high shares of holiday homes, about whether guests from metropolitan areas or areas with high levels of infections are welcome to get the local economy going again or are considered a health risk and therefore not welcome.

1.2 Potential positive regional impacts

The impacts of COVID-19 policy responses are a major challenge to regional and economic development. Nevertheless, for some economic players the lockdowns and policy responses also brought new development opportunities. An attempt to understand which regions might capitalise on economic opportunities arising from the current crisis shows considerable territorial variations (see Map 4). This analysis of potential development opportunities should stimulate debate on possible strong points in the recovery process.

Map 1 (see page 3) and Map 3 (see page 17) both focus on illustrating the territorial diversity of potential impacts of COVID-19 policy responses. Each map is calibrated to topics and indicators. They have to be read separately, as crossreading the two maps is misleading. Although it appears that some regions probably face higher negative impacts while at the same time benefitting from higher positive impacts, these will not balance each other out. Negative impacts will probably outweigh the positive ones. The positive impacts cover only a limited number of sectors and their share of employment does not exceed 10% at best and averages below 2% across EU regions.

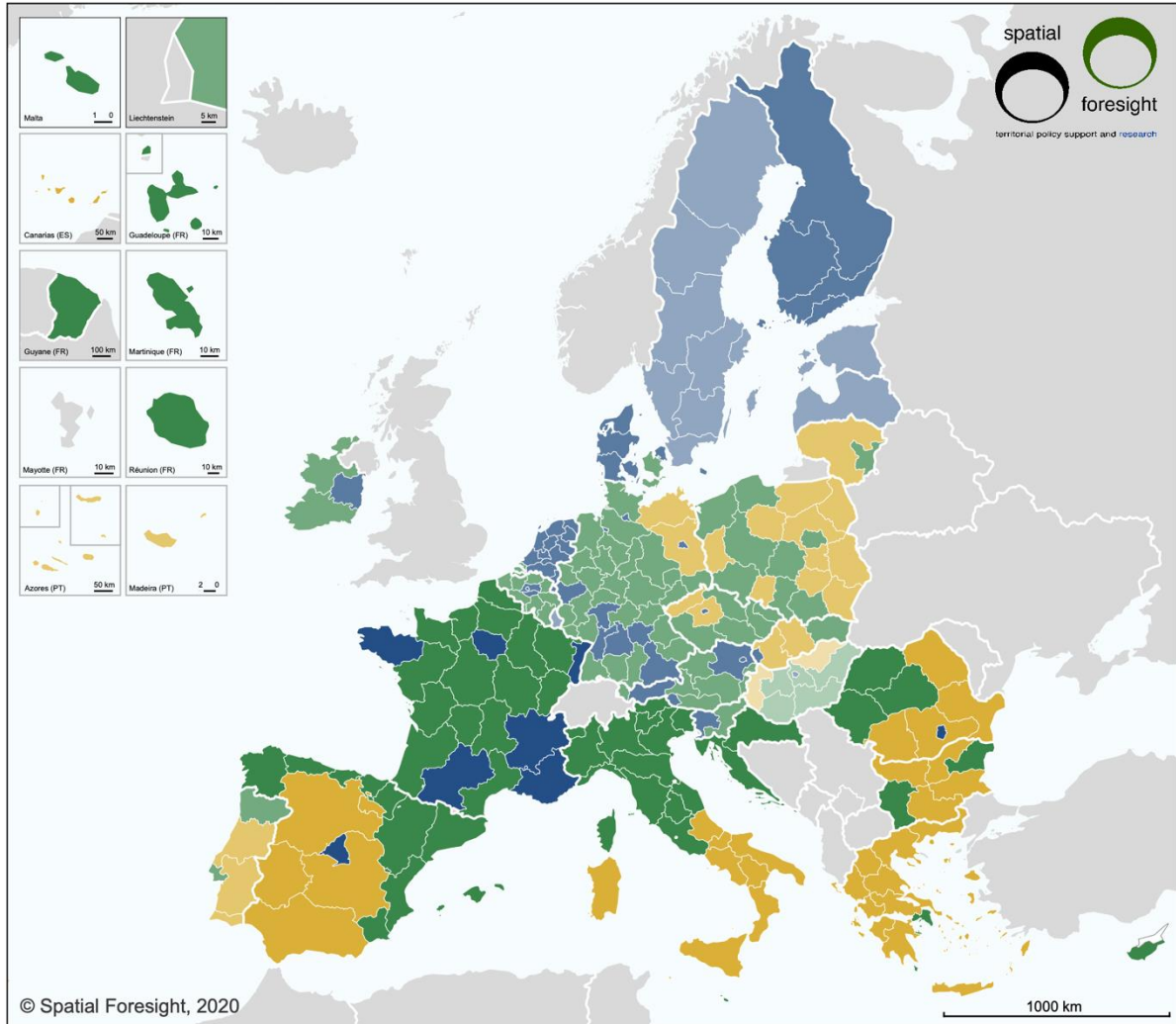
We are well aware of the difficulties of discussing the impacts of COVID-19 – or rather the policy responses to it – at sub-national level in a European-wide approach. Firstly, comparable regional data is limited, as highlighted by various ESPON studies. Secondly, Europe’s immense territorial diversity implies that it is impossible to do justice to specific local development conditions in every region. Still, we believe that a comparative territorial understanding – however rough – is needed to inform discussions about ways forward. In this context, exposure can be seen as a stimulus for change and therefore as a driver for future beneficial opportunities.

The potential to benefit from changing economic conditions due to COVID-19 policy responses builds large on various preconditions in digitisation. This includes access to digital infrastructure, e-governance and preparedness for smart working, as well as employment in the information and communication sector (see section 1.6 for further details).

In consequence the territorial pattern looks much more familiar, with the Nordic countries, Estonia, Latvia and the Netherlands having good capacity to adapt. The same goes for many metropolitan areas especially capital cities such as Dublin, Madrid, Paris, Brussels, Berlin, Prague, Vienna and Bucharest. The pattern of the regions with lower sensitivity, i.e. less potential to benefit, resembles the pattern of Cohesion Regions, including large parts of Portugal, Spain, Southern Italy, Greece, Bulgaria, Romania, Slovakia, Poland, Lithuania and single regions in Hungary, Czechia and Eastern Germany.

Areas with high sensitivity, i.e. potential to benefit, have particular advantages to drawn on for their recovery. At the same time, regions with low potential to benefit from changing economic conditions due to COVID-19 policy responses are likely to face additional structural challenges in the recovery process.

Map 4 Potential positive impacts of COVID-19 lockdowns

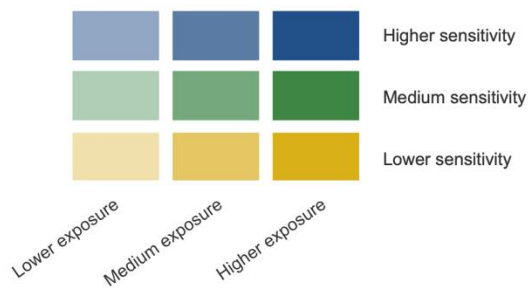


Administrative boundaries: Eurostat GISCO, NUTS 2 (2016)

Source: own elaboration based on the following data inputs

Potential positive impacts of COVID-19 lockdowns, June 2020

Impacts in terms of exposure and sensitivity



Sensitivity

Employment in Information and Communication sector (Eurostat); Broadband access (Eurostat); Smart working preparedness (Eurostat); Online interactions with public administration (Eurostat)

Exposure

Stringency and length of government restrictions (Oxford COVID-19 government response tracker - Blavatnik School of Government); Reduction in working hours (Eurofund survey)

1.3 Exposure to COVID-19 policy responses

To review the extent a region is exposed to COVID-19 policy responses, we have brought together two different pieces of information.

- Firstly, a European composite index that assesses the stringency and length of the restriction measures. This offers a straightforward indication of lockdown features by country, by rigidity and how long these measures lasted. This enables us to perceive how European regions have been impacted by government restrictions and their negative effects on economic production and consumption.
- Secondly, an indicator that assesses how working hours has varied across European countries. This offers an additional, though provisional, proxy for COVID-19 policy response impacts on economic production and European regional exposure to this limiting factor.

While overarching lockdown measures have been taken at national level, there are also considerable variations within countries. Some cities or regions had longer or more stringent lockdowns than others and some lockdowns have been relaunched due to increasing local or regional infections. Unfortunately, it has not been possible to adequately reflect such regional differences for this European picture. Therefore, this study focuses on national lockdowns from beginning of February to the end of May 2020 and depicts major differences across the EU.

Exposure measure I) rigidity and length of lockdown restrictions

Lockdowns and related business disruptions, travel restrictions, school closures and other containment measures have had sudden and drastic impacts on workers and enterprises (International Labour Organization, 2020b; International Organisation of Employers, 2020)³. Exposure to COVID-19 policy responses largely depends on the degree and lengths of lockdowns. Both differ considerably across the EU, mainly between countries but also between regions or even municipalities.

The Blavatnik School of Government at Oxford university, initiated a monitoring of lockdown conditions in several countries across the world: The Coronavirus Government Response Tracker (Blavatnik School of Government, 2020). This captures the exposure of European regions. One index tracks how the response of

³ For references in specific economic sectors see: https://www.ilo.org/sector/Resources/WCMS_741939/lang--en/index.htm

governments has varied daily, becoming stronger or weaker over the course of the outbreak. The so called ‘stringency index’ captures the extent that lockdowns restrict people’s behaviour as well as economic production and consumption.⁴

The index covers: a) closing schools and universities; b) closing workplaces; c) cancelling public events; d) restrictions on private gatherings; e) closing public transport services; f) stay at home requirements; g) restrictions on internal movement; h) restrictions on international travel; i) public information campaigns.

Each indicator has its own scale that assigns points based on thresholds established universally. The different scales for each indicator are then harmonised and combined into a final composite index with a 0 to 100 scale (Blavatnik School of Government, 2020).

The composite index has been chosen for being the most detailed and constantly updated information source on the rigidity of the lockdown measures across Europe. Information on the length of restrictive measures comes from an average score over a fixed period. The average embeds a balanced assessment of both the rigidity and length of the lockdown.

After calculating the average stringency for each European country, three types of countries have been identified for their exposure to restrictive measures induced by COVID-19: Rigid lockdown: 7 Member States; Medium lockdown: 15 Member States; Soft lockdown: 5 Member States.⁵

Based on the rigidity and length of the lockdown, Member States are attributed a coefficient with 1 for soft, 2 for medium and 3 for rigid lockdowns.

These scores will be adjusted with a second exposure measure to derive a final assessment.

The average score of the composite index provides a systematic cross-national, cross-temporal measure to understand how government responses have evolved from 1 February – 31 May 2020.

In Table 1, the average score (middle column) is displayed for each country. In addition, the maximum score (left column) indicates how rigid the restrictions

⁴ Data source: Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Data use policy: Creative Commons Attribution CC BY standard.

⁵ The assessment for those countries with no data available (Latvia and Malta) are based on the methodology outlined in Böhme & Besana (2020).

were at their peak. This gives the reader a sense of how strictly European Governments tackled the crisis.

Table 1 National variations in COVID-19 policy responses (01.02.2020-31.05.2020)

Country ⁶	Maximum peak of lockdown rigidity	Average lockdown rigidity	Length of the restrictions (days) ⁷
Austria	85	50	95
Belgium	81	55	121
Bulgaria	73	48	118
Cyprus	94	58	88
Czech Republic	82	49	118
Germany	73	48	118
Denmark	72	48	95
Spain	85	58	121
Estonia	81	45	76
Finland	69	48	120
France	91	62	115
Greece	84	53	95
Croatia	96	57	117
Hungary	77	48	90
Ireland	91	54	112
Italy	94	69	121
Lithuania	87	53	96
Luxembourg	80	47	82
Netherlands	80	49	84
Poland	83	54	121
Portugal	88	53	115
Romania	87	57	118
Slovak Republic	87	51	118
Slovenia	90	48	89
Sweden	46	27	81

Source: own elaboration based on Oxford Blavatnik School of Government.

Finally, the right column displays a proxy of how long the restriction measures have been in place in each EU country. This counts the days each country had a stringency score above zero. Despite being a simplified measure for the length of lockdown, it highlights significant differences across Member States. Such marked differences might be the result of a delayed outbreak of the pandemic in the country, or they might signal a softer approach taken by the Government (or both).

⁶ No data available for Malta and Latvia.

⁷ The length of restrictions measures the number of days where at least one restrictive measure linked to Covid-19 in place. In the highest cases (Belgium, Spain, Italy) some restrictions on international travels (limited to China in the beginning) were put in place already from the 1st of February and shortly after in several other European countries, according to the referenced study (Blavatnik School of Government, 2020).

The dataset also enables insights on the trends of restrictive measures across countries and over time. We divided the observation period (4 months) into smaller time frames of 15 days, creating 8 virtual points to analyse how lockdown rigidity evolved. For each of the 8 parts, the average score over the period has been calculated.

The results are shown in Figure 4 (see page 13), where each line represents a Member State and the dots indicate the average score of the stringency index for each fraction of observation.

The graph reveals a substantial alignment of EU governments in the initial phases of the outbreak (until 15th March), even if there is a significant difference in the scores from 60 to 87 (excluding the upper and lower outliers). Divergent paths start to emerge and stringency differences become more nuanced, though still remaining in the range 60-92 (15th April). Later, the divergent trend is confirmed and becomes more pronounced as the range widens (50-90) and nuances become more distinguishable. Towards the end of the observation period the trends differ, with some countries remaining more cautious and others adopting faster deconfinement strategies.

Two countries clearly stand out of the generalised curves: I) the yellow curve represent Italy's lockdown measures, showing a noticeable difference to other EU countries both in the rigidity and length of restrictions; II) at the other end of the spectrum, the blue/violet curve represents Swedish lockdown measures, a country well-known for its particularly soft approach to the lockdown.

Exposure measure II) Working hours lost

The crisis continues to cause an unprecedented reduction in economic activity and working time. According to the ILO an estimated 4.8 per cent of working hours were lost worldwide during the first quarter of 2020 (equivalent to approximately 135 million full-time jobs) (International Labour Organization, 2020a).

We have decided to add this dimension to the exposure assessment to reflect the diversity of its distribution across EU Member States. The variation is seems to be largely dependent on Government decisions to limit access to places of work and consumption, but also to the diffusion of COVID-19 outbreaks and perceptions of employers and employees of exposure to the risks. The more working hours lost, the more a country and region is exposed to the pandemic and subsequent policy responses.

To capture the immediate economic and social effects of this crisis, Eurofound launched a large-scale online survey across the European Union. The aim is to

investigate the impact on well-being, work and telework as well as on the financial situation of people in Europe (Eurofund, 2020).

In particular, one question addresses the reduction in working hours. The indicator shows the percentage of people (respondents) who experienced a reduction in their working time since the COVID-19 outbreak.

After collecting the indicator for each country, three types of countries have been identified: High reduction: 9 Member States; Medium: 10 Member States; Low: 8 Member States. Member States are attributed a coefficient: 0 for the low and medium category, 1 for the high category.

This second measure of exposure is given a lower weighting in the combined assessment. The indicator is much more specific but less valid in explaining exposure than the Stringency Composite index. Still, it is very important to explaining part of the differences between EU countries in terms of exposure, therefore it is used as an adjustment, to polish the main indicator.

Combined exposure to COVID-19 policy responses

In order to derive to a unified judgment on regional exposure to COVID-19 economic risk, the proxy for rigidity and length of restrictions and the proxy for reduced working time have been combined. Each EU Member State has a score from 1 to 3 for the rigidity and length of lockdown restrictions, and from 0 to 1 for working hours lost. The two scores are added, giving each Member State a final score from 1 to 4. Based on the distribution, three types of EU Member States reflect their comparative exposure to economic risk induced by the COVID-19 crisis: **Lower Exposure:** 5 Member States; **Medium Exposure:** 13 Member States; **Higher Exposure:** 9 Member States.

1.4 Sensitivity to COVID-19 policy responses

To determine how sensitive a region is to the COVID-19 policy responses requires a wide range of information. For this study in 11 indicators have been taken to account. These are employment in risk sectors, tourism reliance, international trade reliance, share of people at risk of poverty, share of youth unemployment, share of people employed in micro-enterprises, share of self-employed, share of cross-border employments, GDP, national debt, quality of government. Detailed explanations for each are below, followed by explanation of how they have been brought together.

Employment in risk sectors

We have chosen to start our sensitivity assessment by analysing employment data for two main reasons:

- For health, different job conditions combined with the intensity of repercussions across sectors, are common proxies for people's wellbeing⁸ and aspirations for a successful recovery. The current crisis disrupts every work routine and burdens businesses and families with longer term financial consequences, thereby clouding their serenity with a veil of uncertainty.
- Employment is also a good proxy to assess the economic impact of the crisis. Employment adjustment typically follows economic contraction (for example the global financial crisis), while in the current crisis, employment has been impacted directly as a result of policy measures and far more than initially predicted. (International Labour Organization, 2020b; OECD, 2020a; WIFO, 2020). Moreover, employment enables assessment of the relevance of each economic sector in the regional economy, capturing the strong territorial dimension underlying this crisis.

Analysis builds on employment data by sector and categorisation of each sector to COVID-19 policy response risks.

- *Sector employment:* The indicator 'persons employed per sector' has been used to calculate the share of employment in each industry on the total working age population (15-64). The main data source is Eurostat 'regional structural business statistics' (covering 13 of the 16 sectors).⁹ This has been complemented with data from Eurostat 'regional labour market statistics' (covering the 3 remaining sectors)¹⁰. The decision to merge two different, though compatible, sources gives the widest coverage of sectors. The data

⁸ Research indicates that factors such as physical and mental health, having a relationship, or contact to people, friends and family are also important factors in wellbeing, but these cannot easily be measured, or are not easily visible through one indicator (European Commission, 2013; Nozal Lena & Martin, 2019; Rijpma, Auke, Moatsos, Michail, Blair, Martijn, Stegeman, & Hans, 2017).

⁹ Mining and quarrying; Manufacturing - Electricity, gas, steam and air conditioning supply - Water supply, sewerage, waste management and remediation activities – Construction - Wholesale and retail trade, repair of vehicles and motorcycles -Transportation and storage - Accommodation and food service activities - Information and communication - Real estate activities - Professional, scientific and technical activities - Administrative and support service activities.

¹⁰ Agriculture, forestry and fishing - Public administration, defence, education, human health and social work activities - Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organisations and bodies.

is available by NUTS 2 regions and NACE Rev. 2 statistical classification of economic activities. Data from these sources refer to 2017.¹¹

- *Assessment of economic risk by sector:* Each economic sector has been assigned a risk factor following the International Labour Organisation assessment. Their model is based on current economic and financial data to assess the impact of the COVID-19 crisis on economic output at sectoral level (International Labour Organization, 2020b).¹² The ILO scale has 5 risk levels. However, this cannot be used to combine economic sectors and related risks in an aggregate measure. A weighting scale with 5 coefficients probably introduces a significant bias to a final assessment that involves statistical calculations. In light of this, the scale has been simplified to 3 risk levels following and polished with analysis of sub-sectors included in the relative NACE classification. The analysis of sub-sectors has also highlighted a potentially benefitting sector, which will be reviewed in a separate analysis (see Map 3).

The sectors analysed (NACE rev. 2 classification) and the assessment of their economic risk are shown in the table below.¹³ The risk assessment is comparative to the other sectors analysed and is based on ILO sources and sub-sector analyses.

Table 2 Risk assessment of selected economic sectors

Economic Sectors (NACE)	Category assigned	Assessment
Agriculture, forestry and fishing	Neutral	Works restrictions are comparatively less rigid, and demand can be considered stable compared to other goods. <i>Low risk for ILO.</i>
Mining and quarrying	Medium	Work restrictions are less rigid, but demand can be negatively affected in the short term by value chain disruptions. <i>Medium risk for ILO.</i>
Manufacturing	High	Work restrictions are averagely rigid, but demand will suffer both in the short and long term by value chain disruptions. <i>High risk for ILO.</i>
Electricity, gas, steam and air conditioning supply	Neutral	Works restrictions are comparatively less rigid, and demand can be considered stable compared to other goods. <i>Low risk for ILO.</i>

¹¹ In case data is missing for 2017, the latest available year has been used. The principle of taking the latest year available has been adopted under the assumption that the yearly changes in sectorial employment shares cannot become statistically significant in the context of a European comparative study. The non-significance is also due to the fact that the methodology adopts a relatively low number of typologies, which makes a small share change in one specific sector not incisive on the overall regional picture.

¹² See annex 3 of the document for the details on the risk assessment methodology: [ILO report](#).

¹³ The risk judgment has been derived from the ILO assessment and adapted to 3 risk levels instead of 5. For some sectors, such as agriculture, the categorisation may vary considerably between countries or regions. The categorisation might also change, as we learn more about the impacts of COVID-19 policy responses.

Water supply; sewerage, waste management and remediation activities	Neutral	Works restrictions are comparatively less rigid, and demand can be considered stable compared to other goods. <i>Low risk for ILO.</i>
Construction	Medium	Work restrictions are less rigid, but demand can be negatively affected in the longer term. <i>Medium risk for ILO</i>
Wholesale and retail trade; repair of motor vehicles and motorcycles	High	Very strong disruptions on the demand side caused by shop closures in the short term and social distancing in the long term. <i>High risk for ILO</i>
Transportation and storage	Medium	Very strong negative impact on air, and water transport demand both in short and medium term, but stable or even rising demand for postal and courier services. <i>Medium-high risk for ILO.</i>
Accommodation and food service activities	High	Very strong disruptions on the demand side caused by travel restrictions and social distancing both in the short and long terms. <i>High risk for ILO</i>
Information and communication	Positive	Demand has sharply increased in the short term and is suspected to consolidate benefits medium-long term. <i>Not classified in ILO</i>
Financial and insurance	Medium	Financial sector has suffered strong negative impacts in the short term, while insurance is considered relatively stable. <i>Medium risk for ILO.</i>
Real estate	High	Strong disruption on demand both in the short, but especially in the medium-long term. <i>High for ILO.</i>
Professional, scientific and technical	Neutral	Smart working has partly neutralised work disruption. Demand considered stable for now. <i>Low for ILO</i>
Administrative and support service	High	Sub-sectors rely heavily on providing services for physical gatherings, strong negative effects on demand in the medium term at least. <i>Not classified in ILO.</i>
Public administration, defence, education, human health and social work	Neutral	Online services and learning have partly neutralised work disruption. Health <i>Low for ILO</i>
Arts, entertainment and recreation; other service activities; household and extra-territorial organisations	High	Recreation sector will suffer the longest lasting restrictions, with extremely negative consequences on demand in the short to medium term. *Medium for Brussels and Luxembourg due to the high presence of extra territorial organisations. <i>Medium-high for ILO</i>

Source: Spatial Foresight (2020).

To calculate the sensitivity, the share of employment per sector in each European NUTS 2 region has been regrouped according to the risk factor for each economic sector. As a result, each region has a share of people working in neutral, medium, high (and positive) sectors. A simple weighting factor has been assigned to the negative risk categories: 1 for medium risk and 2 for high risk. The neutral economic sectors are not influencing regional sensitivity, and the positive sector will be treated as a separate case. Different weighting systems have also been tested, but the results are always very similar as only two categories are currently considered in the analysis. A weighted score has been calculated by summing the share of people working in medium risk sectors and the share of people working

in high risk, each with their relative weight coefficient (1 or 2). Based on a normalised distribution of the scores, three categories of risk have been defined. The medium category covers the interval between the average score and +/- half the standard deviation: $\bar{X} - \frac{ST.DEV}{2}$ $\bar{X} + \frac{ST.DEV}{2}$.

This results in a risk category distribution of: *Higher*: 83 regions; *Medium*: 75 regions; *Lower*: 81 regions. See also Map 3 on page 17 for territorial patterns.

Regional reliance on tourism

Tourism and related activities have been identified as one of the economic sectors most severely affected by responses to the health emergency. Tourism has been explicitly banned until further notice which has disrupted holiday plans, business travel and the tourism sector. For regional economies that rely heavily on tourism, 2020 is likely to be the most challenging year in decades. Unfortunately, employment sensitivity does cover the tourism sector appropriately. Tourism can be considered as atypical from an employment perspective (accommodation and food services in NACE Rev. 2), as it very often relies on seasonal, temporary and family workers that are more likely to be underrepresented in employment statistics. In light of this an alternative was required that better captures the reliance on tourism of regional economies. The indicator ‘capacity of collective tourist accommodation’¹⁴ has been used to calculate the comparative reliance of European regions on tourism. The data source is the Eurostat ‘regional tourism statistics’.¹⁵

For the indicator ‘capacity of collective tourist accommodation’ the number of bed-places available in each NUTS 2 region is considered as a proxy. Based on a normalised distribution of the indicator, there are three categories based on the same rule as outlined above ($\bar{X} - \frac{ST.DEV}{2}$ $\bar{X} + \frac{ST.DEV}{2}$).

European regions are thus distributed as follows: *low reliance*: 97 regions; *medium*: 87 regions; *high*: 55 regions. See also Map 3 on page 17 for territorial patterns.

¹⁴ Among Eurostat’s ‘capacity of collective tourist accommodation’ measures, the indicator bed-places is preferred as it offers the best coverage of NUTS 2 regions, and is considered equivalent to nights spent.

¹⁵ Regional tourism data is missing for Ireland. The estimation provided by Eurostat regional yearbook 2018 have been used in this study (Eurostat, 2018, p. 145).

Regional reliance on international trade

Restrictions on border controls, air and road transport, and unequally distributed enterprise closures have a significant impact on industrial value chains and value creation. The more a region's economic fabric relies on international trade for goods, the more its industry will suffer from restrictions resulting from the outbreak of COVID-19.

To capture the comparative reliance of European regions on international trade and their participation in international value chains the indicator 'Export and Import as share of regional GDP' has been chosen. The data source is the JRC technical report 'European NUTS 2 regions: construction of interregional trade-linked Supply and Use tables with consistent transport flows' (Thissen, Ivanova, Mandras, & Husby, 2019).

The export indicator as a share of GDP is summed with the import indicator. Based on a normalised distribution of the indicator, three categories have been drawn using the same rule as outlined above ($\bar{X} - \frac{\text{ST.DEV}}{2}$, \bar{X} , $\bar{X} + \frac{\text{ST.DEV}}{2}$).

European regions are thus distributed as follows: *low reliance*: 97 regions; *medium*: 74 regions; *high*: 64 regions.¹⁶ See also Map 3 on page 17 for territorial patterns.

People at risk of poverty and social exclusion

The economic disruption caused by COVID-19 inevitably threatens the most vulnerable groups of society more. People at risk of poverty and social exclusion may face unprecedented difficulties in terms of job losses that could exacerbate an already problematic situation. Families at risk of poverty before the crisis may be facing serious difficulties in making ends meet today, and even more persistent effects in the longer term when opportunities are expected to be scarcer than before. These societal groups need special attention for the COVID-19 policy responses. The Bank of Italy has clearly stated in its annual report (29 May 2020) that the impact of the crisis will be much harder for poorer families, increasing disparities to an unprecedented level (Banca d'Italia Eurosystem, 2020).

To capture the comparative incidence of poverty and social exclusion across EU regions the indicator 'share of people at risk of poverty and social exclusion' has been chosen. The database is the result of merging two sources: I) Eurostat

¹⁶ No data available for Martinique, Guadeloupe, Guyane, La Réunion. The data for Ireland has been adapted based on data from NUTS 2013 version.

‘regional poverty and social exclusion statistics’; II) ESPON 2020 database ‘at risk of poverty and social exclusion rate by NUTS 2 region’.

The share of population at risk of poverty and social exclusion has been considered as a proxy. Based on a normalised distribution of the indicator, three different categories have been drawn using the same rule outlined above

$$\left(\bar{X} - \frac{\text{ST.DEV}}{2} \quad \bar{X} + \frac{\text{ST.DEV}}{2}\right).$$

European regions are thus distributed as follows: *low incidence*: 87 regions; *medium*: 95 regions; *high* 57 regions.

Youth Unemployment

The International Labour Organization fourth report on COVID-19 and the world of work (27 May 2020): ‘Young people are facing multiple shocks from the COVID-19 crisis, which could lead to the emergence of a lockdown generation’(International Labour Organization, 2020a).

Another societal group has stood out as suffering particularly harsh consequences from the COVID-19 crisis: younger people.

Young people are particularly vulnerable because they are more likely to have temporary or informal contracts, or no job at all. They are also more likely to have less financial stability and job security.

Young unemployed people face the hardest challenge as when they have no income or savings combined with small or no work experience. The recovery from the COVID-19 crisis is expected to have a strong negative impact as job market disruption will lead to less opportunities, making it even harder for young people to find a job than before.

Not only it will be hard to find an occupation, younger people will be penalised by a relatively long period of inactivity and little or no previous job experience This makes it more challenging to consolidate their skills and start building a career path.

To capture youth unemployment the indicator ‘regional unemployment by age’ for age class 15-24 has been chosen. The data source is Eurostat ‘regional labour market statistics’.

The indicator for youth unemployment has been considered as a proxy. Based on a normalised distribution of the indicator, three categories have been drawn using the same rule outlined above ($\bar{X} - \frac{\text{ST.DEV}}{2}$ $\bar{X} + \frac{\text{ST.DEV}}{2}$).

European regions are thus distributed as: *low incidence*: 99 regions; *medium*: 62 regions; *high* 70 regions¹⁷. See also Map 3 on page 17 for territorial patterns.

Youth unemployment only explains part of the problem: another new global survey by the ILO reveals that over one in six young people surveyed have stopped working since the onset of the crisis and for young people who remained in employment, working hours have fallen by 23% (International Labour Organization, 2020a).

Employment in micro enterprises

Current debates around Europe suggest that micro enterprises (and SMEs to a lesser degree) are particularly challenged by economic developments and considerable numbers of them risk being phased out. Therefore, the importance of micro enterprises in a regional economy provides additional insights on the territorial diversity of impacts.

The more an economy relies on micro enterprises, the greater the disruption. This is true not only in the initial phase, where micro enterprises have less capacity and financial means to absorb the shock, but even more so in the longer term. In a region that relies on them, if many such enterprises cease business both employees and owners will have a very hard time finding alternative jobs, as the economic structure has comparatively less capacity to reallocate labour.

The indicator for persons employed in micro enterprises reflects this characteristic of regional economic structures. The data source is the ESPON report ‘Small and Medium-Sized Enterprises in European Regions and Cities’ (ESPON, 2018).

The share of persons employed in micro enterprises of total employees in the region has been used as a proxy. Based on a normalised distribution of the indicator, three categories have been drawn using the same rule outlined above ($\bar{X} - \frac{\text{ST.DEV}}{2}$ $\bar{X} + \frac{\text{ST.DEV}}{2}$).

European regions are: *low incidence*: 100 regions; *medium*: 59 regions; *high*: 80 regions. See also Map 3 on page 17 for some territorial patterns.

¹⁷ No data for NUTS 2 regions: Oberpfalz, Unterfranken, Bremen, Trier, Valle d'Aosta/Vallée d'Aoste, Burgenland (AT), Vorarlberg, Åland.

Self-employment

Self-employed workers are a focus in the debate, being the most vulnerable category in the current crisis.

Bruegel has carried out an ad hoc study: ‘the self-employed are hardest hit and least supported’. In their analysis they conclude that I) Self-employed people work disproportionately in the sectors hardest hit by the lockdown: 44% of self-employed workers versus 37% of employees; II) most self-employed workers are financially worse off than employees. The median self-employed worker earns 18% less than the median employee (Anderson, 2020).

Moreover, the article demonstrates how state assistance is consistently lower for the self-employed than for employees. In light of this, a ratio indicating the share of self-employed compared to total employees captures regional variations across the EU. The data source is Eurostat regional labour market statistics.¹⁸

Based on a normalised distribution of the indicator, three categories have been drawn using the same rule outlined above ($\bar{X} - \frac{\text{ST.DEV}}{2}$ $\bar{X} + \frac{\text{ST.DEV}}{2}$).

European regions are thus distributed as follows: *low incidence*: 93 regions; *medium*: 77 regions; *high*: 69 regions. See also Map 3 on page 17 for some territorial patterns.

Cross-border employment

Within the EU, many cross-border value chains have been disrupted by the closure of national borders. Adding the importance of open borders, in particular for border regions adds a very targeted and very important element to the picture.

To assess how much each European region is impacted by border closures, we look at the share of people (15-64 years) living in a region but working in a foreign country compared to the total employed in the same age class. The data source is ‘Employment and commuting by sex, age and NUTS 2 region’ from Eurostat labour market statistics.

Based on a normalised distribution of the indicator, three categories have been drawn using the same rule outlined above ($\bar{X} - \frac{\text{ST.DEV}}{2}$ $\bar{X} + \frac{\text{ST.DEV}}{2}$).

¹⁸ Employment by age, professional status and NUTS 2 regions.

European regions are distributed as follows: *low incidence*: 102 regions; *medium*: 89 regions; *high*: 48 regions. See also Map 3 on page 17 for territorial patterns.

Regional GDP per capita

The regional GDP per capita has been considered as a proxy for the region's economic endowment and in-house ability to face the initial economic disruption. Richer regions are expected to have more capacity to contain the shock. Their socioeconomic structure might help them to better absorb impacts from the crisis and be comparatively more effective in mitigating its long-term effects. On the contrary, regions with lower GDP per capita are expected to take a harder hit. Poorer regions in the EU are comparatively less equipped to contain the negative impact on their economies or to help local enterprises keep jobs and reactivate production.

In the longer term, such asymmetric conditions could drag poorer regions even lower, increasing disparities across the EU. In light of this, special attention in the recovery process should be devoted to regions that were already struggling to catch up before the outbreak, fuelling a catching up process rather than a drowning one.

To capture this territorial dimension, the indicator regional GDP per capita has been chosen. The data source is Eurostat 'regional economic accounts'.

Based on a normalised distribution of the indicator, three categories have been drawn using the same rule outlined above ($\bar{X} - \frac{\text{ST.DEV}}{2}$, \bar{X} , $\bar{X} + \frac{\text{ST.DEV}}{2}$).

European regions are thus distributed as follows: *low GDP*: 86 regions; *medium*: 69 regions; *high*: 84 regions. See also Map 3 on page 17 for territorial patterns.

National debt

The diverse national and international responses to the crisis induced by COVID-19 have immediately shown that unprecedented sums of public money need to be deployed to prevent the economic engine from collapsing and the social structure from suffering serious consequences from job losses and basic financial needs for families. But the economic engine is not the first priority on the list, the health emergency needs to be addressed first. National resources are of course limited, and for some countries much more than others.

Whilst State aid rules have been temporarily loosened, not all countries have the same firepower to inject monetary resources into the system.

The national level of indebtedness is an important indicator to assess the extent that EU Member States can intervene in the economy in a timely and adequate manner. The indicator is ‘debt as share of national GDP’ and the data source is Eurostat Government statistics.

Based on a normal distribution of the indicator, three categories have been drawn using the same rule outlined above $(\bar{X} - \frac{ST.DEV}{2} \bar{X} + \frac{ST.DEV}{2})$ ¹⁹.

European regions are distributed as follows: *low national debt*: 58 regions; *medium*: 83 regions; *high*: 98 regions. See also Map 3 on page 17 for territorial patterns.

Quality of government

Regional development research shows that the quality of government is an important development factor.

Growth theories that accounted for economic differences relatively well two decades ago are less capable of doing so now as the residual factor is increasing. Most eyes have now turned to the role of institutions, in general, and government quality. Recent research (in particular Rodríguez-Pose, 2020; Rodríguez-Pose & Ketterer, 2019) focuses on the role of institutional change in regional development. Their analysis reveals that institutions matter as government quality has been one of the most consistent predictors of economic growth and resilience. The marginal utility of an investment in infrastructure, human capital and technology for regional economic development is lower in areas with poor quality of government. As government quality is important for economic growth and resilience, it also helps to understand the territorial impacts of the COVID-19 pandemic. High quality regional governments have a trust and skills advantage for handling the recovery. The capacity and processes on which they rely helps in implementing policy responses quicker and more effectively. The On the contrary, regions with lower quality of government face a bigger threat of being trapped by the uncertainty of the current situation.²⁰

The quality of government index is therefore chosen to capture this important factor suspect of generating territorial imbalances. The data source is the ‘QoG

¹⁹ In this case the average is considered at country level for the EU27. Based on this, countries have been divided into three categories (low, medium and high debt) and afterwards each region has been assigned the corresponding value of the respective Member State.

²⁰ On a different note, there seems to be a correlation between high death tolls from Covid-19 and a deteriorating quality of government over the last 20 years (Rodríguez-Pose, 2020).

EU Regional dataset' from the Quality of Government Institute at the University of Gothenburg (Charron, 2016).²¹

Based on the distribution of the indicator, three different categories have been drawn. To distribute the regions in the respective category the same rule outlined above has been applied ($\bar{X} - \frac{\text{ST.DEV}}{2}$ $\bar{X} + \frac{\text{ST.DEV}}{2}$).

European regions are thus distributed as follows: *low quality*: 77 regions; *medium quality*: 75 regions; *high quality*: 87 regions. See also Map 3 on page 17 for territorial patterns.

Combined sensitivity to COVID-19 policy responses

To derive a unified judgment on regional sensitivity to COVID-19 economic risk, all the indicators have been integrated into a composite index. This weighs the indicators from 0.25 to 3, in accordance to their importance (see textbox).

BOX: COMPOSITION OF THE INTEGRATED INDEX

The indicators have been aggregated in accordance with the importance of individual indicators:

- **EMPLOYMENT IN RISK SECTORS** has a score of 1 for lower risk, 2 for medium risk and 3 for higher risk. This composite indicator is the most comprehensive measure of the sensitivity of regional economies to COVID-19 policy responses. In light of its decisiveness, the methodology gives it greater relevance.
- **TOURISM RELIANCE** has a score of 2 for the high reliance category, and 0 for the medium and low, as tourism has been considered the most highly affected aspect in the crisis. The 55 European regions (roughly all those well known for being highly attractive) more reliant on this industry have a higher score to reflect their specific circumstances.
- **INTERNATIONAL TRADE** has a score of 1.5 for the high reliance category, and 0 for medium and low, as the reliance on international trade and value chains is considered very important for capturing regional sensitivity, only slightly less than tourism. The 64 European regions more reliant on this industry will have a higher score to reflect their specific circumstances.
- **PEOPLE AT RISK OF POVERTY AND SOCIAL EXCLUSION** have a score of 0.5 for the high incidence category, and 0 for the medium and low, as this explains regional sensitivity less than first three indicators (Risk sectors, Tourism and Trade). It makes a very important contribution to the regional picture, though it captures a more specific aspect.

²¹ Charron, Nicholas, Stefan Dahlberg, Sören Holmberg, Bo Rothstein, Anna Khomenko & Richard Svensson. 2016. The Quality of Government EU Regional Dataset, version Sep16. University of Gothenburg: The Quality of Government Institute

The 57 European regions with the most families at risk of poverty and social inclusion will have a higher score to reflect their specific circumstances.

- YOUTH UNEMPLOYMENT has a score of 0.5 for the high incidence category, and 0 for the medium and low, as this explains regional sensitivity less than the first three indicators. It makes a very important contribution to the regional picture, though it captures a more specific aspect. The 70 European regions with the highest shares of youth unemployment will have a higher score to reflect their specific circumstances.
- REGIONAL GDP has a score of 0.5 for the low GDP category, and 0 for the medium and high, as it explains regional sensitivity less than the first three indicators. Its explanatory power makes a very important contribution to the regional picture, though it captures a more specific aspect. The 86 European regions with the lower GDP will have a higher score to reflect their specific circumstances.
- NATIONAL DEBT has a score of 0.5 for the high national debt, and 0 for the medium and low, as this explains regional sensitivity less than the first three indicators. It makes a very important contribution to the regional picture, though it captures a more specific aspect. The 98 European regions with higher levels of national debt will have a higher score to reflect their specific circumstances.
- QUALITY OF REGIONAL GOVERNMENT has a score of 0.5 for the low quality category, and 0 for the medium and high, as this explains regional sensitivity less than the first three indicators. It makes a very important contribution to the regional picture, though it captures a more specific aspect. The 77 European regions with lower quality of government will have a higher score to reflect their specific circumstances.
- EMPLOYMENT IN MICRO ENTERPRISES has a score of 0.5 to the high incidence category, and 0 to the medium and low, as it is considered to be decisive in explaining regional sensitivity to a lower extent than first three indicators outlined (Risk sectors, Tourism and Trade). Its explanatory power is a very important contribution to the regional picture, though it captures a more specific aspect. The 80 European regions with the higher share of persons employed in micro enterprises will have a higher score to reflect their specific circumstances.
- SELF-EMPLOYED have a score of 0.5 for the high incidence category, and 0 for the medium and low, as it explains regional sensitivity less than the first three indicators. It makes a very important contribution to the regional picture, though it captures a more specific aspect. The 69 European regions with the higher share of self-employed people will have a higher score to reflect their specific circumstances.
- CROSS-BORDER EMPLOYMENT has a score of 0.25 for the *high incidence* category, and 0 for the medium and low, as cross-border aspects are less decisive than the other sensitivity indicators. The 48 European regions with a higher share of people working outside national borders will have a higher score to reflect their specific circumstances.

As a result of the steps outlined above, each EU region obtains a score from each of the indicators and indexes selected. The score in each category assesses the

relative sensitivity of a region in that particular aspect, compared to other EU regions.

The scores are added together, for a final score from 1 to 10.25.

Based on a normalised distribution of the scores, three types of regions have been identified, reflecting their sensitivity to socio-economic risk induced by the COVID-19 crisis: **Lower sensitivity:** 86 regions; **Medium:** 91 regions; **Higher:** 62 regions.

1.5 Negative impacts of COVID-19 policy responses

To assess the potential territorial impacts of COVID-19 policy responses, the exposure and sensitivity assessments – as described above – need to be brought together. This can be done through a cross-analysis resulting in 9 categories.

Table 3 Regional exposure and sensitivity types

<i>Lower exposure & higher sensitivity: 3 regions</i>	<i>Medium exposure & higher sensitivity: 23 regions</i>	<i>Higher exposure & higher sensitivity: 36 regions</i>
<i>Lower exposure & medium sensitivity: 9 regions</i>	<i>Medium exposure & medium sensitivity: 44 regions</i>	<i>Higher exposure & medium sensitivity: 38 regions</i>
<i>Lower exposure & lower sensitivity: 7 regions</i>	<i>Medium exposure & lower sensitivity: 56 regions</i>	<i>Higher exposure & lower sensitivity: 23 regions</i>

Source: own elaboration

The three types of sensitivity for the regional economy are crossed with the three types of exposure. This gives a more comprehensive view of territorial diversity reflecting both exposure and risk, without pre-empting a discussion on whether high or low exposure affects a region’s sensitivity. The methodology results in 9 types of sensitivity and exposure as shown in the below table.

Following this approach, the results have been mapped to reflect the potential territorial impacts of COVID-19 policy responses. Map 2 reveals initial insights into the territorial diversity of expected negative impacts across European regions and the need for place-sensitive approaches to policies supporting recovery. One-size-fits-all approaches cannot help all regions in their recovery, nor utilise the diverse potential for recovery in Europe.

The table below shows the geographical distribution of the most sensitive regions. The table displays all those regions with total score > 6.5, the top 15% of all European NUTS 2 regions.

Table 4 EU regions most sensitive to the potential impacts of COVID-19

COUNTRY	NUTS 2 regions in the top 15% for sensitivity	NUTS 2 regions in the top 7.5 % for sensitivity
Czech Republic	2	2
Germany	1	0
Ireland	1	0
Greece	4	3
Spain	5	2
Italy	16	8
Netherlands	2	1
Portugal	1	1

Source: own elaboration

1.6 Positive sensitivity to COVID-19 policy responses

A crisis usually also contains opportunities for some players. That is also the case with COVID-19 policy responses which provided development and business opportunity including for video conferencing and online shopping.

Sectors which are less negatively affected by COVID-19 policy responses might play a crucial role in recovery processes. Indeed, the disruptions also bring opportunities for some economic operators. Therefore, we explored possibilities to also map the territorial diversity of potential economic opportunities arising from COVID-19 policy responses. The analysis of potential regional capacity to adapt to COVID-19 policy responses is mainly meant to stimulate debate and ensure that future policies also consider opportunities and potential.

Analysing the territorial pattern of potential development opportunities from COVID-19 policy responses builds on the same approach to exposure and sensitivity as outlined above. The exposure analysis is the same as outlined in section 1.3. For the sensitivity analysis, 4 indicators cover sectors and regional specificities which favour development under lockdown. These are share of employment in information and communication sectors, broadband access, smart working preparedness and online interactions with public bodies.

Employment in the information and communication sector

Following the potential risk assessment in Table 2 (see page 28), the Information and Communication sector stood out as the only one that could potentially benefit from the crisis. Information and Communication services, mainly online nowadays, have not been heavily disrupted by restrictions on work and movement. Instead, demand has grown heavily as the quest for *information* in various fields has surged since the outbreak, as has the need for *communication*, from public and private sectors towards citizens, and between citizens.

Data on employment in the information and communication sector has been chosen as a proxy for regions' expertise and reliance on this sector.

For employment, the indicator 'persons employed per sector' has been used to calculate the share of employment in each industry compared to the total working age population (15-64). The data source is Eurostat 'regional structural business statistics'. The data is available by NUTS 2 regions and NACE Rev. 2 statistical classification of economic activities.

Based on a normalised distribution of the indicator, three categories have been drawn using the same rule outlined above $(\bar{X} - \frac{\text{ST.DEV}}{2} \bar{X} + \frac{\text{ST.DEV}}{2})$.

As a result, the three types of beneficial opportunities for the regional economy are: *Higher opportunities*: 42 regions; *Medium*: 108 regions; *Lower*: 89 regions.

Regional access to broadband connection

The pandemic crisis and lockdown restrictions have disrupted normal working conditions. Tasks that used to be performed in the office have been moved online, from remote points whenever possible. European regions differ in their access to the internet and differ even more in access to broadband, which might be a minimum requirement for some tasks.

The indicator 'households with broadband access' has been chosen to reflect regional variations across the EU. The data source is Eurostat 'regional digital economy and society' statistics. Based on a normalised distribution of the indicator, three categories have been drawn using the same rule outlined above $(\bar{X} - \frac{\text{ST.DEV}}{2} \bar{X} + \frac{\text{ST.DEV}}{2})$.

European regions are thus distributed as follows: *Higher access*: 85 regions; *Medium*: 86 regions; *Lower*: 68 regions.

Smart working preparedness

Smart working has become the new normal for many workers across Europe. Many of these had little or no experience of working from outside the office. Others had already experienced such conditions thanks to teleworking schemes. The transition to ‘the new home office’ has differed depending on the preparedness of people to the new configuration. The preparedness for working from home (for jobs that can be carried out remotely) largely varies depending on Member State regulations and working culture habits. Places that had already implemented such schemes may have a small advantage in adapting their production and efficiency faster.

The indicator is: ‘employed persons working from home²² as a percentage of total employment’. The data source is Eurostat’s Labour Force Survey (LFS) - annual results.

Based on the distribution of the indicator, three different have been drawn using the same rule outlined above $(\bar{X} - \frac{ST.DEV}{2} \bar{X} + \frac{ST.DEV}{2})$.²³

European regions are distributed as follows: *high preparedness*: 48 regions; *medium*: 11 regions; *low*: 185 regions²⁴.

Preparedness of individuals to online interactions with public bodies

As many jobs have moved online, public forms of communication and interaction also needed to be digitalised. In many cases requests for financial support, assistance and aid schemes for enterprises had to be made outside of public authority offices.

European regions vary in their offer of public services online. We hypothesise that regions which had already implemented and introduced digital interactions between public bodies and citizens have a comparative advantage in adapting to the new situation as well as to setting up ad-hoc platforms and migrating services onto existing online frameworks.

²² Two categories have been added to construct this indicator. We have added the share of people working from home «usually» to those working from home «sometimes». This assumes that preparedness depends largely on experience with smart working condition, and less on the frequency of this practice.

²³ In this particular case the average is at country level for the EU27. Based on this, the countries have been divided into three categories (low, medium and high preparedness). Then each region has been assigned the value of their Member State.

²⁴ The regional distribution does not reflect the normalisation as explained in footnote 18.

The indicator chosen is ‘individuals who used the internet for interaction with public authorities. The data source is Eurostat’s ‘regional digital economy and society’ statistics.

Based on a normalised distribution of the indicator, three categories have been drawn using the same rule outlined above ($\bar{X} - \frac{\text{ST.DEV}}{2}$, \bar{X} , $\bar{X} + \frac{\text{ST.DEV}}{2}$).

European regions are distributed as follows: *Higher interactions*: 71 regions; *Medium*: 104 regions; *Lower*: 64 regions.

Combined potential positive impacts of COVID-19 policy responses

To derive a unified judgment on regional sensitivity to COVID-19 potential adaptive capacities, different indicators have been integrated into an aggregate index, weighing the indicators from 1 to 3 based on their importance (see textbox).

As a result of these steps, each EU region obtains a score from each of indicator and index. The score in each category assesses the relative sensitivity of the region compared to other regions in the EU. The scores are added up, assigning each European region a final score from a 1 to 6.

Based on a normalised distribution of the scores, three types of regions have been identified, reflecting their comparative sensitivity to the socio-economic benefits from the COVID-19 crisis: **Lower sensitivity**: 57 regions; **Medium**: 123 regions; **Higher**: 59 regions.

BOX: INTEGRATED INDEX COMPOSITION

The indicators have been aggregated using a weighing system in line with their individual importance.

- EMPLOYMENT IN INFORMATION AND COMMUNICATION SECTORS has a score of 1 for lower, 2 for medium and 3 for higher incidence. This indicator is the most important measure of regional economic sensitivity to potential opportunities and benefits of COVID-19 policy responses. Given the importance of the information and communication sector, the methodology is designed to give the greater relevance to it, attributing the higher number of points.
- BROADBAND ACCESS has a score of 1 for the higher access category, and 0 for medium and lower. This prioritises regions with a potential competitive advantage in reacting to policy stimulus, due to their structural characteristics. The 85 European regions with higher access to broadband will have a higher score to reflect their specific circumstances.
- SMART WORKING PREPAREDNESS has a score of 1 for higher preparedness, and 0 for the medium and lower. This prioritises regions that may have a competitive advantage in

reacting to policy stimulus, due to their structural characteristics. The 48 European regions with higher preparedness to work from home will have a higher score to reflect their specific circumstances.

- ONLINE INTERACTIONS WITH PUBLIC BODIES has a score of 1 for higher interactions, and 0 for medium and low. This prioritises regions that may have a competitive advantage due to their structural characteristics. The 64 European regions with more advanced online interactions between public bodies and citizens will have a higher score.

1.7 Positive impacts of COVID-19 policy responses

In order to assess the potential territorial benefit of COVID-19 policy responses, the exposure and sensitivity assessment – as described above – need to be combined. This can be done through a cross-analysis, resulting in 9 categories.

The three types of adaptive capacities for the regional economy are crossed with the three types of exposure. This enables a more comprehensive view of territorial diversity reflecting both exposure and sensitivity, without pre-empting a discussion on whether high or low exposure affects a region’s sensitivity. The methodology converts into 9 types as shown in Table 5.

The results have been mapped to reflect the potential positive impacts of COVID-19 policy responses and are shown in Map 4.

Table 5 Region distribution across exposure and sensitivity types

<i>Lower exposure & higher sensitivity: 12 regions</i>	<i>Medium exposure & higher sensitivity: 39 regions</i>	<i>Higher exposure & higher sensitivity: 8 regions</i>
<i>Lower exposure & medium sensitivity: 5 regions</i>	<i>Medium exposure & medium sensitivity: 63 regions</i>	<i>Higher exposure & medium sensitivity: 55 regions</i>
<i>Lower exposure & lower sensitivity: 2 regions</i>	<i>Medium exposure & lower sensitivity: 21 regions</i>	<i>Higher exposure & lower sensitivity: 34 regions</i>

Source: own elaboration.

2 Multilevel governance & sustainability in recovery policies

This section provides an analysis of:

- the role of cities and regions, and whether multi-level governance is used when managing the crisis; and
- the role of the European Semester in guiding recovery measures, its territorial dimension, and ensuring implementation of the UN Sustainable Development Goals (SDGs).

More specifically, the analysis considers six Member States affected differently by the COVID-19 crisis: Spain, France, Italy, Sweden, Belgium and Poland.

The first section (2.1) is based on interviews at national and central level gathering opinions on the role of local and regional authorities and multi-level governance during lockdown and the recovery.

The following two sections display findings of the analysis of National Reform Programmes (section 2.3) and Country-Specific Recommendations (section 2.2). The analysis of National Reform Programmes and Country-Specific Recommendations uses the same methodology as recent CoR studies on the same subjects (CoR, 2018, 2019) enabling comparison with the past and better tracking of the possible impact of COVID-19 on national strategy.

2.1 The role of cities and regions and the multi-level governance approach

During the lockdown and the following recovery phase, central, regional and local authorities have different roles in EU Member States depending on the institutional set-up as well as their resources and capacities. However, they were all deeply involved in managing the unprecedented crisis which tested their internal organisation and coordination between different public actors. Eventually, all European multi-level governance underwent to a kind of severe ‘stress test’ concerning both administrative and institutional aspects.

Based on interviews at both central and regional/local level, the following pages describe how multi-level governance worked during the lockdown and the recovery phase in six Member States and what lessons can be drawn.

2.1.1 Institutional relationships among central, regional and local authorities during the lockdown

In the lockdown phase, the main role in setting rules was played by the central state independently from the institutional set-up and division of power (i.e. federal/unitary – centralised/ decentralised). Central authorities declared the lockdown and normally established the relevant laws or regulations concerning economic sectors, education and public areas to be closed. In Belgium and Italy, local and regional authorities complemented national rules with their own measures. In Italy, this led to some conflict especially between Regions and National Ministries for school closures. Additional issues rose with health systems, which in Italy, for example, is mostly a regional competence.

The lockdown massively involved local and regional authorities, again independently from the institutional/constitutional set-up. These authorities bore the burden of ensuring the continuation of essential services, such as personal care for disadvantaged people, local public transport, water and energy distribution, public building maintenance, etc. These ordinary tasks became exceptional because of the lockdown. For example, protective equipment (i.e. masks) were often not available which posed the dilemma of exposing operators and the service beneficiary to risk or ceasing to provide services (e.g. in Sweden and in Italy). Moreover, the need to limit movement and access to administration premises required re-thinking the organisation and internal arrangements which are complex in large public organisations.

In addition to managing the health emergency when they had specific competence, local and regional authorities had to translate into practice restrictions on movement, surveillance, the logistics of healthcare, informing citizens and companies, as well as initial economic relief by allowing payments to be postponed. In implementing the lockdown, the role of central authorities was mostly guiding and coordinating local and regional authorities.

The main common difficulty was to implementing guidance from the central level, tailored to the context. In Belgium towns and cities with competences in spatial planning, retail and public safety were often at the end of the decision making process so they needed additional efforts to implement the measures and fit them into their local context. However, in general, the interviewees considered guidance to implement lockdown measures provided by central authorities were clear and effective. In Poland, local and regional authorities saw the coordination as ‘intensive and good’ in every field. Especially in healthcare and emergency funding, local and regional authorities and central authorities cooperated in a flexible and effective way.

The overall positive judgment on guidance from central authorities finds two exceptions. In Sweden, there were concerns about the delay of the national authorities' response which created uncertainty. The delay was an issue for local and regional authorities also in Italy, but the biggest criticism was of two factors:

- Lack of clarity of national rules i.e. low quality regulation.
- Overlapping institutional levels. Often, local and regional authorities were in a difficult situation since regional and national levels provided conflicting guidance. It is worth noting that the National Association of Municipalities (Associazione Nazionale Comuni Italiani – ANCI) voluntarily gave up all regulatory competence on public health to national authorities to avoid such conflict and uncertainty.

In relation to coordination, there were two dimensions: the horizontal (i.e. among local and regional authorities) and the vertical/hierarchical (i.e. central state with regions, regions with local authorities). In France and Belgium – despite two different institutional systems - the clarity of different roles and duties helped to efficiently coordinate different government levels. In Spain, vertical/hierarchical coordination was perceived as more effective than horizontal coordination by local and regional authorities. In Italy, local and regional authorities complained about coordination too. For example, from the very beginning regions required a common control room including all government levels. This was established only two weeks after the lockdown was declared at national level.

2.1.2 Multi-level governance and the recovery phase

After the lockdown, the attention of public authorities focused on recovery measures at all government levels according. The primary focus was to support an economic re-boot of the private sector, especially microenterprises and the self-employed, heavily hit by the crisis. Regional and local authorities typically set-up SME schemes to provide immediate liquidity and to help enterprises with working capital. Policy tools included loans, guarantees, grants and services vouchers. For example in Italy, regions decided to co-fund the national guarantee scheme (Fondo Nazionale di Garanzia) targeting enterprises to achieve the sufficient financial critical mass. In their turn, local and regional authorities implemented all the measures to facilitate business restarting by simplifying permits and concessions. For example in Belgium, to boost the re-opening of restaurants and cafés, municipalities increased the areas available for their terraces. A local platform for workshops was established to support small retailers and shops too.

In addition to economic recovery, local and regional authorities were also deeply committed to social re-opening. This includes redesigning local mobility by

introducing new ‘car free’ zones for walking and biking but also by providing direct support to the most vulnerable groups. In Spain several measures were put in place including:

- unemployment support schemes;
- minimum income guaranteed;
- family subsidies;
- support for housing expenses;
- social services to the weakest societal groups (low-income people, homeless, migrants, young people).

Education is also a field where local and regional authorities are deeply engaged. Even when the central government has direct competence, local and regional authorities ensure the facilitating services, which range from public transport to maintaining buildings. Again, this poses a serious financial and organisational threat also for things which in normal times appear obvious. For example, in Italy,²⁵ the students will probably sit at distance desks when they go back to school. This implies more room in schools and significant new equipment. Municipalities are in charge of both measures but, besides the financial issues, there is a problem in purchasing the necessary material from the market. For instance, a similar issue to finding protective masks will most probably recur.

The social and economic recovery involves all the government levels in an extraordinary and unprecedented effort where time is a key factor. All the local and regional authorities saw the need for strong coordination as an institutional priority. This may happen through new institutional channels or a consolidated governance framework.

In France, cooperation between different local levels was seen as positive and effective. Despite France being a centralised country, there were continued efforts to consult local and regional authorities. The President and the Prime Minister regularly received associations representing regions, departments and cities. Furthermore, to manage the post lockdown phase, a model of governance was specifically designed for the regional and local levels. Regional committees were created to ensure economic continuity and recovery. Then, at departmental (i.e. local) level committees were created. Since these are closer to the ground they adapt measures to their territorial specificities. For example, if the virus were to start again, they can close beaches and schools. Similarly in Poland, coordination has been judged as effective. Also in this case, ‘ad-hoc’ task forces were created to coordinate health responses at different levels.

²⁵ At this date the Italian government has not fully defined the guidance for re-opening schools.

Also in Belgium overall coordination was judged as good. But this mainly through an established modality. Economic coordination between municipalities and regions was defined by a sort of a ‘framework’ contract which designed the roles and scope of collaboration for the economy.

Similarly, in Italy, for the economic recovery, a crucial role was played by an existing institutional governance framework. Coordination between the regions and the Agency and Ministry for Cohesion Policy quickly enabled resources to be moved between regional Operational Programmes (OPs), centrally managed OPs, ESIF and national instruments. This has optimised resources and was due to flexibility introduced by the European Commission (with CRII and CRII+). Even more importantly, a technical *modus operandi* was established between Managing Authorities of Regions and the Ministries, and at political level, within the State-Region Conference.

Cooperation across borders was uneven. It ranged from non-existent to very intense. The latter was in Belgium, where our interviewee reported very intense and constant exchanges with Dutch local and regional authorities. Authorities engaged directly with ETC programmes kept cooperating with partners on the other side of the border. For example, under the ALCOTRA Programme (Italy-France cross border programme), the French Managing Authority maintained the relationship with the Italian partner. All in all, local and regional authorities appreciate the importance of the CoR and other European local and regional authority networks (e.g. Eurocities and CPMR) for sharing ideas and good practices.

Beyond institutional governance cooperation, local and regional authorities see the involvement of social and economic stakeholders as crucial. For example, in Sweden, collaboration between regional government and business organisations has become structured, evolving into more regular meetings and systematic sharing of information (ÖKRAFT = Islands Power). Organisations are ready to make more resources (funds, staff) available for the crisis.

Overall, the short-term recovery measures seem to be sufficiently coordinated. However, medium-long term measures demand more common reflections and consultations. All respondents perceive the COVID-19 crisis as a substantial challenge but also as a great opportunity to rethink social and economic models as well as to think out of the box. Quoting one French interviewee *‘After the recovery, the territories/ sectors/ companies that will evolve better are territories capable of adapting (...), it is a question of seeing the new territorial opportunities to be seized’*. The local and regional authorities are aware that ‘old recipes’ will not work and are no longer appropriate to facing future challenges. There are

many open questions, some of which are very operational and/or technical, such as:

- how to further digitalise public administration services?
- how to develop distance learning supporting disadvantaged students?
- how to develop healthcare at home with help from the ICT sector?
- what are the technological options for green public transport?
- what is the scale for social financing (local, regional, national)?
- how to enhance proximity retailing?
- how to reorganise public administration in the light of the teleworking experience?

Other questions have a different time horizon and require sharing a common long-term vision. Local and regional authorities see the need for revising economic and social models: *‘We shall develop a new model, a European model of development which is agreed by everyone. Having a new largely shared growth paradigm would help us to reduce the harm from new coming challenges (i.e. global warming/ demographic changes)’* (quote from an Italian interviewee).

Finally, there is a common awareness that territories and local and regional authorities still play an important role despite the risk of recentralisation. The interviewees agree that, especially in the initial stage of the emergency, central authorities had a greater role. Then stronger coordination was needed. However, only a true ‘place based’ approach can optimise the use of resources for recovery: *‘In the short term, centralisation may be most effective, in the long term, it is important to provide enough space for regions to make their own decisions’* (quotation from Polish interviewee).

2.1.3 Lessons learnt

The COVID-19 crisis deeply challenged institutional frameworks and administrative systems. Almost all local and regional authorities share the same organisational challenges due to the need for quick reorganisation and responses to unprecedented problems. At the same time all European local and regional authorities have been on the front line to face citizens’ new and old needs. While struggling to ensure the continuity of essential services, local and regional authorities had to complement national authorities by implementing the lockdown and recovery measures. Therefore coordination, especially vertical coordination, among different levels of government was and is still crucial, independently of the institutional set-up.

During the lockdown and recovery, the cases analysed in this report show that, where the institutional set-up was well established, roles clearly defined and institutional communication well designed, then multi-level governance has worked well. This happens in regional or unitary institutional frameworks as well as in centralised/decentralised systems. On the contrary, there have been conflicts of competences and overlaps where there was already a lack of institutional/constitutional clarity on '*who does what, when*'. Almost none of the respondents criticised the existing division of power but rather the lack of clarity and excessive complexity.

All the actors emphasise the importance of institutional communication, sharing and consultation. Specifically, all the local and regional authorities see the national level as the most appropriate to design the emergency regulatory framework, provide guidance and lead the coordination. At the same time, national authorities are aware that local and regional authorities are essential to implementing the decisions. So far, multi-level governance, even tailored differently in Member States, was capable of resisting the initial stage of the crisis and responding to the needs of citizens and territories.

However, a new phase is going to start which should require new political, social and economic models to forge a more resilient Europe. The local and regional authorities are aware that this implies a deeper level of consultation for fresh and new ideas. Beyond involving public actors at different levels, economic and social stakeholders need to be engaged for large and open debate on '*what to do next*'. This debate shall also go beyond administrative and national borders and have a truly European dimension. Therefore, open exchange of '*out of the box*' and fresh ideas are required beyond the usual consultation paths. Even if all local and regional authorities agree on this need, they are less sure this will happen and, even more importantly, if it will happen in time.

2.2 Consistency of National Reform Programmes with territorial dimension and SDGs

The analysis has taken into account 5 National Reform Programmes: France, Spain, Belgium, Sweden and Poland. The Italian National Reform Programme is not available yet.

Analysis of National Reform Programmes has followed the methodology of past CoR studies (CoR, 2019). The territorial dimension has been examined across:

- disparities, challenges, and needs;

- impact;
- specific policies.

For each of these aspects, each National Reform Programme has been screened to understand whether and how far it has specifically taken into account territories, as well as different types of local and regional authorities. The three elements identified in the National Reform Programmes were given a three-grade scoring:

- 0: not included;
- 1: included but with general reference to local and regional authorities and territories;
- 2: included with specific reference to local and regional authorities and territories.

Furthermore, for each of the five Member States, the National Reform Programmes have been analysed to identify connections with SDGs set in the 2030 Agenda for Sustainable Development and adopted by all UN Member States in 2015. The EU has endorsed the 2030 Agenda, placing SDGs and the Paris Agreement on climate change at the heart of its action including in the Green Deal. Furthermore, the President of the European Commission committed *‘to refocus the European Semester into an instrument that integrates the United Nations Sustainable Development Goals’*²⁶.

The level of integration in the national policy framework has been assessed, checking which policy implementation the Member State opted for i.e. if SDGs were included in:

- a legislative proposal;
- a specific budget;
- a monitoring/ reporting system;
- a specific policy formulation;
- administrative capacity building.

²⁶ Ursula von der Leyen, *A Union that strives for more - My agenda for Europe*, POLITICAL GUIDELINES FOR THE NEXT EUROPEAN COMMISSION 2019-2024.

Figure 5 UN Sustainable Development Goals



Source: UN sustainable development knowledge platform.

2.2.1 The territorial dimension in National Reform Programmes

Overall, all National Reform Programmes consider the territorial dimension especially regarding disparities, challenges and needs as well as specific policies. The element linked to impact/coverage is less addressed by National Reform Programmes and, in the case of Sweden, it is neglected.

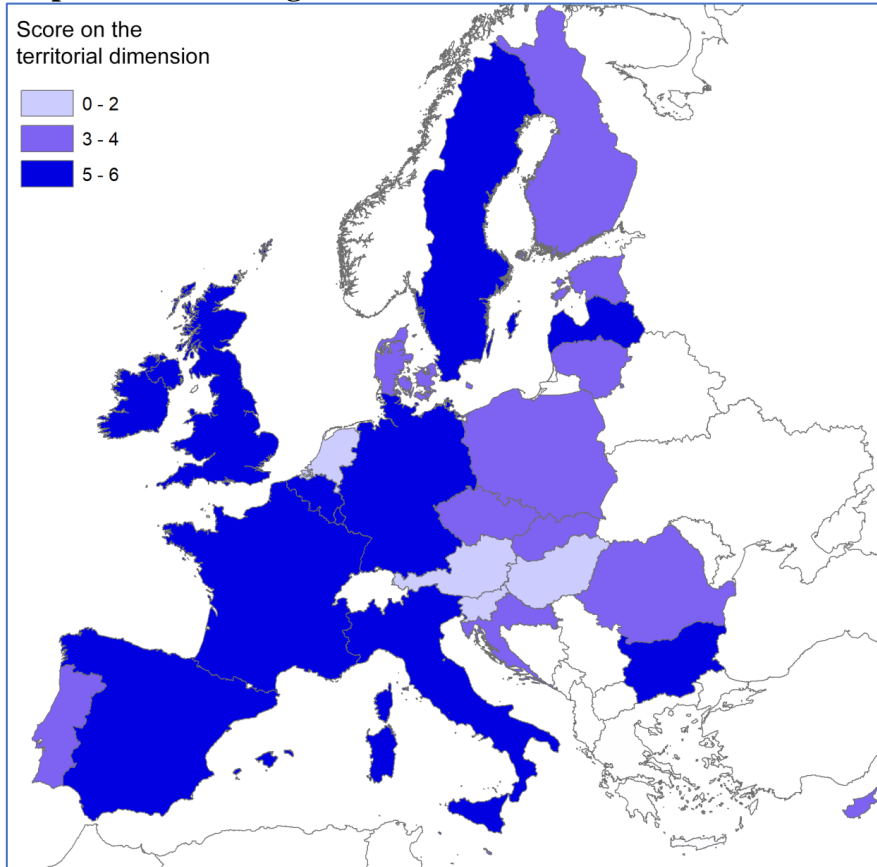
Table 6 National Reform Programmes and territorial dimension overall score

Dimension	France	Italy	Spain	Belgium	Poland	Sweden
Disparities, challenges and needs	2	n.a.	2	2	2	2
Impact / Coverage	1	n.a.	1	2	1	0
Specific policies	2	n.a.	2	2	2	2
Total territorial dimension per country	5	n.a.	5	6	5	4

Source: own elaboration.

Comparing 2020 results with 2018 (see the map below), it is noticeable that for Spain, Belgium, France there are no changes, Poland gets a higher score while Sweden gets a lower one.

Map 5 Scoring for the territorial dimension



Source: CoR (2018, p. 18).

In the following pages, disparities and challenges as well as needs, impacts and specific policies are analysed in detail.

Disparities, challenges, and needs

All five Member States outline specific disparities, needs or challenges for types of regions or even specific regions in the National Reform Programme. The main challenges addressed are:

- Digital infrastructure/e-commerce/ICT skills (Belgium, Sweden);
- Education (Poland; Spain, Sweden, France)
- Water access/wastewater treatment (France, Poland,);
- Healthcare system (France, Poland, Spain)
- Employment (Belgium, France, Poland, Spain, Sweden);
- Transport (Belgium, France, Poland, Spain, Sweden);
- Social inclusion/poverty risk (Belgium, France, Sweden).

Some examples:

- The French National Reform Programme highlights regional disparities i.e. the heterogeneity of economic and social dynamics between territories, but also significant regional disparities regarding access to healthcare. Further challenges for France are transport, quality housing and broadband that are also strongly linked to territorial fractures.
- The Polish National Reform Programme mentions the challenges of transforming mining regions, which includes requalifying workers, new jobs, new investment areas within revitalised and renaturalised post-mining areas. This is a real challenge for workers who have been linked to the mining industry for generations.
- The Swedish National Reform Programme points out the need to tackle growing mobility challenges, by reinforcing incentives and removing barriers to increase collective and low emission transport.

In the end all National Reform Programmes include specific references to disparities, needs and challenges from a territorial perspective. In comparison with 2018, the only difference is the National Reform Programme in Poland which has included a more territorial focused analysis (see table below).

Table 7 Inclusion of territorial disparities, challenges and needs, comparison 2018-2020

Years	France	Italy	Spain	Belgium	Poland	Sweden
2020	2	n.a.	2	2	2	2
2018	1	n.a.	1	2	1	2

Source: own elaboration.

Impact and coverage

Only one National Reform Programme (Belgium) includes specific references to the impact of measures on specific territories. The local or regional effects of programmes and measures can be found in a table in an annex to the National Reform Programme. Furthermore, the National Reform Programme clearly distinguishes between territories throughout the document. The other National Reform Programmes are more focused on the national level, with the impact outline general and not detailed for specific sub-territories. Finally, the National Reform Programme in Sweden does not relate to any specific territorial aspects of impact or coverage. Sweden is also the only country with a lower score than in 2018 (see the table below).

Table 8 Inclusion of territorial impact /coverage comparison 2018-2020

Year	France	Italy	Spain	Belgium	Poland	Sweden
2020	1	n.a.	1	2	1	0
2018	1	n.a.	1	2	1	1

Source: own elaboration.

Specific policies

Most of the programmes include a specific policy approach for certain regions. The most frequent references in the programmes are to employment (France, Poland, Belgium, Spain) and transport (France, Poland, Belgium, Spain, Sweden). For example:

- The National Reform Programme in Belgium specifies that entrepreneurship will be encouraged in Wallonia through an extended support system integrating diagnosis, skills reinforcement, and legal and accounting aspects. It will be accessible to starters who launch their activity as a self-employed person or business creator.
- For transport and mobility, the National Reform Programme in France mentions a specific policy approach for specific regions. Thus, in Yonne (Bourgogne-Franche-Comté region), ERDF contributes to the deployment of a public charging station service in connection with development of car-sharing sites.
- The National Reform Programme in Spain also mentions sustainable mobility strategies, such as the 2030 Electric Vehicle Promotion Plan of Valencia and the Renovation Plan of Madrid.

If compared with 2018 the situation appears unchanged (see the table below).

Table 9 Inclusion of specific policies addressing local and regional authorities and territories comparison 2018-2020

Specific policies	France	Italy	Spain	Belgium	Poland	Sweden
2020	2	n.a.	2	2	2	2
2018	2	n.a.	2	2	2	2

Source: own elaboration.

2.2.2 SDG inclusion in National Reform Programmes

Analysis of the relevance between SDGs and Country-Specific Recommendations has been performed for the five Member States. The different modalities of policy implementation have been numbered (see the box below).

Table 10 Level of policy implementation of SDGs







Id. number	Description
1	Inclusion in law
2	Inclusion in budget
3	Inclusion in reporting and monitoring
4	Inclusion in programme formulations
5	Inclusion in capacity building

Source: own elaboration.

The results are grouped per theme as follows:

- Social SDGs: 1, 2, 3, 4, 5, 10;
- Environmental SDGs: 6, 7, 11, 12, 13, 14, 15;
- Economic SDGs: 8, 9;
- Political SDGs: 16, 17.

Table 11 National Reform Programmes and Social SDGs

	France	Italy	Spain	Belgium	Poland	Sweden
Social SDGs						
 1	4		1, 2, 4	1, 2, 4	1, 2, 4, 5	4, 5
 2	1, 2, 4					
 3	1, 2, 3			5	1, 2, 4	1, 2, 4
 4	1, 4, 5		1, 2, 4, 5	2, 5	2, 4, 5	1, 2, 4
 5	1, 3, 4			1, 4, 5		2, 4
 10						

Source: own elaboration.








In relation to social SDGs, National Reform Programmes especially cover poverty and education (in all 5 Member States), while SDG 3 ‘Good health and well-being’ is covered in 4 National Reform Programmes (France, Belgium, Poland and Sweden, see table below). Finally, National Reform Programmes cover gender equality in 3 Member States (France, Belgium and Sweden). It has to be noted that all the National Reform Programmes connected with social SDGs are also connected with the COVID-19 crisis.

The most common form of policy implementation for SDGs is programme formulation followed by legislation and budget. Naturally these three forms are often integrated and used in parallel.

As illustrated in the table below, environmental SDGs are covered in all 5 Member States concerning climate action (SDG 13), while clean energy (SDG 7) is addressed in 4 National Reform Programmes (Spain, Belgium, Poland and Sweden) and Sustainable cities and communities (SDG 11) in 3 (Spain, Belgium,

Poland). However, it is noticeable that some SDGs are less addressed, such as SDG 6 on water resources management or the goals related to biodiversity such as SDG 14 life below water.

Table 12 National Reform Programme and Environmental SDGs



	France	Italy	Spain	Belgium	Poland	Sweden
Environmental SDGs						
 6 CLEAN WATER AND SANITATION						
 7 AFFORDABLE AND CLEAN ENERGY			1, 2	1, 3, 4, 5	1, 2	1, 2, 4
 11 SUSTAINABLE CITIES AND COMMUNITIES			1, 2, 3, 4, 5	4	2, 4	
 12 RESPONSIBLE CONSUMPTION AND PRODUCTION						1, 2, 4
 13 CLIMATE ACTION	1, 3, 4, 5		1, 2, 3, 4, 5	1, 2, 3, 4	1, 2	1, 2, 4
 14 LIFE BELOW WATER						
 15 LIFE ON LAND						

Source: own elaboration.

It is interesting to note that National Reform Programmes integrate SDG 13 with a wider range of policy implementation: law making, budgeting, monitoring programming, and capacity building.

For economic SDGs, SDG 8 (decent work and economic growth) is taken into account directly in 4 Member States while SDG 9 (industry, innovation and infrastructure) is covered in all 5 National Reform Programmes (see table below).

Table 13 National Reform Programmes and Economic SDGs

	France	Italy	Spain	Belgium	Poland	Sweden
Economic SDGs						
 8 DECENT WORK AND ECONOMIC GROWTH	4			1, 2, 4, 5	1, 2, 4, 5	1, 2, 4
 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	2		1, 2, 4	2, 4, 5	1, 2, 4	2

Source: own elaboration.

Finally, political SDGs linked to justice and partnership do not seem to be mirrored in National Reform Programmes.

2.2.3 Assessment of the National Reform Programmes

All the National Reform Programmes analysed entail a territorial dimension especially in relation to the identification of disparities, challenges and needs and

to the definition of programmes targeting specific areas and local and regional authorities. Less attention is paid to assessing the potential impact and effect at regional level. In comparison with 2018, there were no significant changes in the approach related to the territorial dimension.

The National Reform Programmes integrate different SDGs in relation to social, environmental and economic sustainability. Particularly those related to health, poverty-reduction and education, relate to the COVID-19 crisis. However, some SDGs are neglected, in particular those related to biodiversity, sea and water protection, and reduction of inequality. Also, the SDGs linked to justice and partnership (SDG 16 ‘Peace, justice and strong institutions’ and SDG 17 ‘Partnerships for the goals’) are not addressed at all.

If we go further, it is interesting to note how much the National Reform Programmes link the latest SDGs to territories.

If we focus on France’s National Reform Programme, for SDG 3 ‘Health and well-being’ there is a stronger link with the territories. Indeed, the National Reform Programme in France encourages doctors to settle in ‘medical deserts’. In addition, the law enacts measures to improve the healthcare services especially in specific territories. The other SDGs are addressed with very general reference to the territories as they are more national.

For countries like Belgium, which is a federal system, the link between territories and SDGs is much more explicit. It is noted that in exercising their respective competences, the Federal State, communities and regions shall pursue the objectives of sustainable development.

Thus, some National Reform Programmes clearly emphasise the link between SDGs and territories while others do not specifically refer to this topic and mention SDGs as a goal for the entire country. In the end, the connection (or not) between these 2 dimensions depends both on the nature of each SDG and on the institutional organisation of the country itself.

2.3 Relevance of Country-Specific Recommendations concerning the territorial dimension and integration of SDGs

For each Country-Specific Recommendation (CSR), the territorial analysis²⁷ includes territory-related sub-recommendations which:

- are likely to generate a territorially differentiated impact;
- require territorial involvement for implementation.

The sub-recommendations are classified as ‘directly’ territory-related when local and regional authorities are explicitly mentioned and ‘indirectly’ related when they imply local and regional authority remits.

The Country-Specific Recommendations are then classified according to relevance in relation to:

- obstacles to investment with total or partial territorially differentiated impacts, relevance within countries or where local and regional authorities could contribute to easing or removing them;
- the European Pillar of Social Rights.

Country-Specific Recommendations have been grouped by policy area, obstacles by category and European Pillars by principle (see tables below).

Table 14 Policy areas and principles used to group CSRs, obstacles and European Pillar of Social Rights

CSR policy areas	Obstacles – categories	Pillar of Social Rights - principles	
1= public finance and taxation 2= financial sector 3= labour market, education, social policies	1= public governance and administration / public procurement and Private-public	1. Education, training and life-long learning 2. Gender equality 3. Equal opportunities 4. Active support for employment	9. Work-life balance 10. Healthy, safe and well-adapted work environment and data protection 11. Childcare and support to children 12. Social protection

²⁷ The methodology was already adopted in COR report ‘Territorial Analysis of the Country-specific Recommendations’

4= structural policies 5= public administration and business environment'	partnerships (PPPs) 2= business environment 3= essential pre-conditions for investment'	5. Secure and adaptable employment 6. Wages 7. Information about employment conditions and protection from dismissal 8. Social dialogue and involvement of workers	13. Unemployment benefits 14. Minimum income 15. Old age income and pensions 16. Healthcare 17. Inclusion of people with disabilities 18. Long-term care 19. Housing and assistance for the homeless 20. Access to essential services
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Source: own elaboration.

The sub-recommendations are then counted and compared with 2019. The following sections report the results.

For each of the six Member States, the Country-Specific Recommendations were analysed according to their relationship with the SDGs. Therefore, each Country-Specific Recommendation scores from 0 to 2 as follows:

- 0: SDGs not addressed;
- 1: SDG indirectly addressed. For example, the Country-Specific Recommendation ‘Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, high-tech and innovative sectors, 5G networks and sustainable transport’ for Sweden has been connected to SDG 11 ‘sustainable cities and communities’. Indeed, this specific Country-Specific Recommendation addresses two aspects of urban sustainability i.e. clean energy use and transport. However, the urban dimension is not explicit.
- 2: Directly linked to SDG – e.g. the Country-Specific Recommendation for France ‘Strengthen the resilience of the health system by ensuring adequate supplies of critical medical products and a balanced distribution of health workers, and by investing in e-Health’ is direct and explicitly connected to the SDG ‘good health and well-being’.

The cautions already expressed for the analysis of National Reform Programmes are also valid for Country-Specific Recommendations.

2.3.1 Territory-related Country Specific Recommendations

The table below shows the number of sub-recommendations which are territory-related comparing 2019 and 2020. There are 52 territory-related Country-Specific Recommendations which increased compared to 2019 (+ 38% overall) for each of the 6 Member States.

This increase of territory-related Country-Specific Recommendations follows a historical trend²⁸. For all the Member States they increased 12% from 2018 to 2019 (from 120 to 137). However, this latest increase is mainly due to the COVID-19 crisis. Of 52 territorial related Country-Specific Recommendations, 31 address COVID:

- 12 are linked to the health emergency (e.g. Ensure resilience of the health system, including through adequate supplies of critical medical products, infrastructure and workforce),
- 17 to economic recovery (e.g. Front-load mature public investment projects and promote private investment to foster the economic recovery),
- 8 support the adoption of social measures (e.g. mitigate the employment impact of the crisis by enhancing flexible and short-time working arrangements).

Table 15 Territory-related Country Specific Recommendations

Member State	Year	A) Directly involving LRAs	B) Indirectly involving LRAs	C) Not involving LRAs, but having territorial impact
France	2019	2	2	
	2020	4	3	1
Italy	2019	6	2	1
	2020	8	1	1
Spain	2019	2	5	
	2020	4	3	2
Belgium	2019	5		
	2020	7		
Poland	2019	1	3	
	2020	3	8	

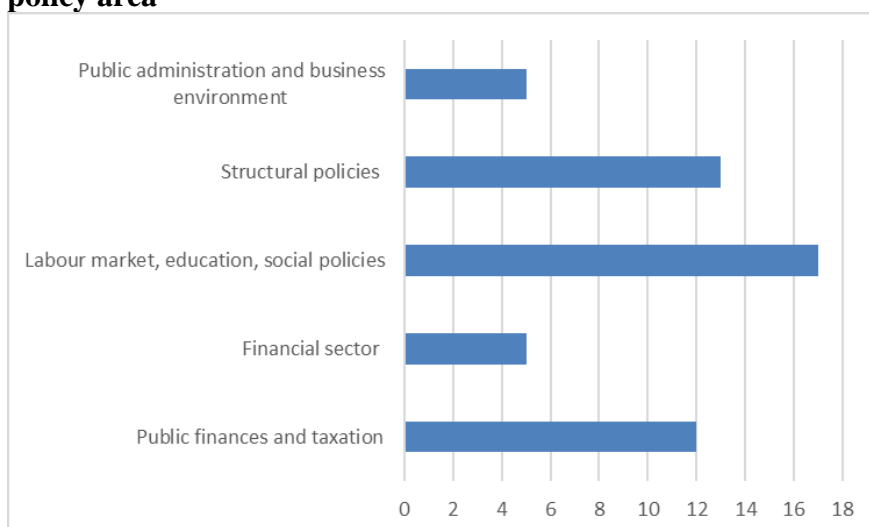
²⁸The increase of territory-related CSRs corresponds to the increase in CSRs.

Sweden	2019	1	1	1
	2020		6	1
Total	2019	17	13	2
% all CSRs for the 6 Member States	2019	53%	41%	6%
Total	2020	26	21	5
% all CSRs for the 6 Member States	2020	49%	40%	9%

Source: own elaboration and CoR (2019).

The chart below shows the distribution by policy area. The largest group is related to employment, education and social policies followed by structural policies. This is because most territory-related Country-Specific Recommendations are connected to measures for economic recovery and social support post COVID-19.

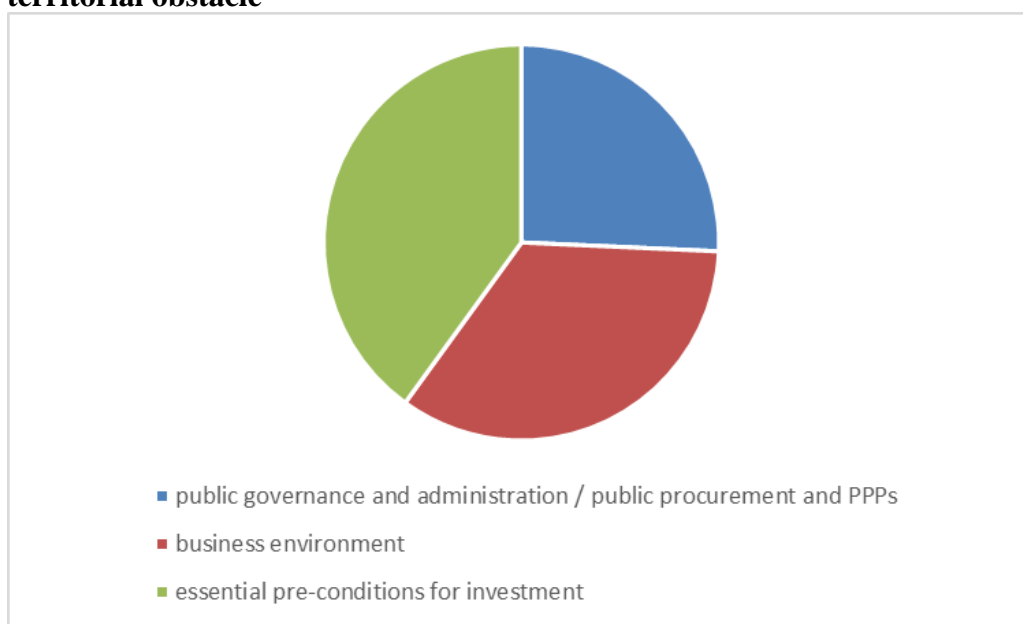
Figure 6 Distribution of territory-related Country-Specific Recommendations per policy area



Source: own elaboration.

There are 35 territory-related Country-Specific Recommendations entailing territorial obstacles or 67%, in 2019 these were 41%. The more numerous territory-related Country-Specific Recommendations relate to essential pre-conditions for investment (see the chart below).

Figure 7 Distribution of territory-related Country-Specific Recommendations per territorial obstacle



Source: own elaboration.

The challenge of building regional and local administrative capacity was addressed by 11 territory-related Country-Specific Recommendations for all six Member States. 8 territory-related Country-Specific Recommendations ‘indirectly’ support administrative changes by requiring specific sectoral changes (e.g. in Poland, ‘*Enhance the investment climate, in particular by safeguarding judicial independence*’). In three cases, territory-related Country-Specific Recommendations directly refer to enhanced administrative capacities for effectiveness, involvement of social partners and anti-money laundering:

- Improve the efficiency of the judicial system and the effectiveness of public administration (Italy);
- Ensure effective public consultations and involvement of social partners in the policy-making process (Poland);
- Improve the effectiveness of anti-money laundering supervision and effectively enforce the anti-money laundering framework (Sweden).

18 territory-related Country-Specific Recommendations promote the European Pillar of Social Rights. The more targeted principles were:

1. Education, training and life-long learning;
3. Equal opportunities;
4. Active support to employment;
16. Healthcare;
20. Access to essential services.

2.3.2 Country Specific Recommendations and Sustainable Development Goals

Before assessing Country-Specific Recommendations, a few points should be highlighted. First, Country-Specific Recommendations are very synthetic, so it is difficult to assess the integration of SDGs in them. Second, an SDG not included within a Country-Specific Recommendation does not necessarily mean that a Member State neglects the specific SDG policy field. It may simply mean that the Member State does not have a relevant issue for this specific SDG, so assessment should be nuanced.







Analysis of the connection between SDGs and Country-Specific Recommendations covered the 6 Member States groups these per theme:

- Social SDGs: 1, 2, 3, 4, 5, 10;
- Environmental SDGs: 6, 7, 11, 12, 13, 14, 15;
- Economic SDGs: 8,9;
- Political/ Institutional SDGs: 16,17.

A direct link scores 2, while an indirect link scores 1.

For social SDGs, Country-Specific Recommendations specifically and directly cover the goals related to education and health in all 6 Member States while poverty is only covered in Spain, Italy and Poland (see the table below). All the Country-Specific Recommendations connected with social SDGs are also connected with the COVID-19 crisis.







Table 16 Country Specific Recommendation and Social SDGs

	France	Italy	Spain	Belgium	Poland	Sweden
Social SDGs						
 1 NO POVERTY		2	2		2	
 2 ZERO HUNGER						
 3 GOOD HEALTH AND WELL-BEING	2	2	2	2	2	2
 4 QUALITY EDUCATION	2	2	2	2	2	2
 5 GENDER EQUALITY						
 10 REDUCED INEQUALITIES						

Source: own elaboration

Environmental SDGs are covered in all 6 Member States in relation to clean energy (SDG 7), urban sustainability (SDG 11), responsible consumption (SDG 12) and climate change (SDG 13). Water resources management (SDG 6) is addressed specifically by Country-Specific Recommendations for Spain and Italy (see next table). There were Country-Specific Recommendations related to environmental sustainability in 2019, but in 2020 there is an increase in the quality and quantity of such recommendations (e.g. for Italy, *investment on the green and digital transition, in particular on clean and efficient production and use of energy, research and innovation, sustainable public transport, waste and water management as well as reinforced digital infrastructure to ensure the provision of essential services*). SDGs related to biodiversity (SDG 15) and sea protection (SDG 14) are not addressed.



Table 17 Country Specific Recommendations and Environmental SDGs

	France	Italy	Spain	Belgium	Poland	Sweden
Environmental SDGs						
		2	2			
	2	2	2	2	2	2
	1	1	1	1	1	1
	2	2	2	2	2	2
	2	2	2	2	2	2
						
						

Source: own elaboration.

Economic SDGs (SDG 8, decent work and economic growth, and SDG 9, industry, innovation and infrastructure) are directly covered in all 6 Member States.

Table 18 Country Specific Recommendations and Economic SDGs



	France	Italy	Spain	Belgium	Poland	Sweden
	2	2	2	2	2	2
	2	2	2	2	2	2

Source: own elaboration.

Political/ institutional SDGs linked to justice and partnership are mirrored in Country-Specific Recommendations for Italy, Poland and Sweden. SDG 16 ‘Peace, Justice and Strong Institutions’ implies several targets such as ending

abuse, exploitation and all forms of violence, promoting the rule of law, ensuring equal access to justice for all and democracy as well as developing transparent institutions at all levels. SDG 17 ‘Partnerships for the goals’ deals with the need for country collaboration (especially North-South and South-South cooperation) and the promotion of sustainable development and growth.

Table 19 Country Specific Recommendations and political/institutional SDGs

	France	Italy	Spain	Belgium	Poland	Sweden
Political SDGs						
 16 PEACE, JUSTICE AND STRONG INSTITUTIONS		2				1
 17 PARTNERSHIPS FOR THE GOALS					2	

Source: own elaboration.

There is a clear lack of the external dimension of SDGs 16 and 17 in the Country-Specific Recommendations, highlighting the absence of development cooperation in the European Semester. Indeed, the European Semester does not refer to cooperation with developing countries and strong global partnership, since it is more centred on internal and European issues.

2.3.3 Assessment on the Country-Specific Recommendations

The 2020 Country-Specific Recommendations see an increasing importance of the territorial dimension compared to 2019. Even if local and regional authorities are not directly mentioned, Country-Specific Recommendations are closer to cities and regions in terms of needs and areas of intervention. The COVID-19 crisis seems to have accelerated the reorientation of the Country-Specific Recommendations to territories, especially in relation to the environment and social inclusion. Social inclusion seems to have acquired remarkably more importance compared with the past.

This reorientation is shown by how the Country-Specific Recommendations mirror the SDGs. Indeed, environmental and social sustainability are well reflected in the Country-Specific Recommendations. On the other hand, some SDGs were totally absent including those dealing with sustainable growth and development as well as coordination policies to help developing countries (SDGs 16 and 17).

3 EU recovery measures

EU recovery measures take shape as the economic and social crisis caused by COVID-19 becomes more visible. Some measures are currently being implemented while others are still under negotiation.

In April 2020, the Eurogroup decided on a response package providing up to EUR 540 billion for three safety nets:

- ‘Support to mitigate Unemployment Risks in an Emergency’ (SURE) to protect workers affected by the pandemic (EUR 100 bn);
- ‘EIB Guarantee Fund for Workers and Businesses’ to support hard-hit SMEs facing the economic fallout of the pandemic (EUR 200 bn);
- ‘Pandemic Crisis Support credit line’ within the European Stability Mechanism for euro area Member States to support healthcare, cure and prevention related costs of the pandemic (EUR 240 bn).

With a particular focus on European Structural and Investment Funds (ESIF), the Coronavirus Response Investment Initiatives (CRII and CRII+) were put in place in March and April 2020 respectively, to quickly mobilise existing cash reserves and implement flexible rules for spending these.

CRII and CRII+ were later followed by a proposal for a more comprehensive and long-term oriented policy measure, ‘Next Generation EU’ (May 2020), a one-off emergency and recovery instrument to invest up to EUR 750 bn in a green, digital and resilient Europe between 2021 and 2024. Together, ‘Next Generation EU’ and the revamped Multiannual Financial Framework 2021-2027 (EUR 1,100 billion) constitute the European Recovery Plan of up to EUR 1,850 billion. An amended 2020 budget (June 2020) within the current financial framework for 2014-2020 should help to address the most urgent and short-term needs.

In the following, the focus will be on measures relevant to local and regional development. First, CRII/CRII+, ‘Next Generation EU’ and the amended 2020 budget will be outlined. Afterwards, their relevance and impact will be discussed, for each instrument separately and from a general perspective across the different instruments. Overall, one can distinguish between the relevance of a measure and its impact on local and regional development as well as the relevance and role of local and regional authorities in designing and implementing this measure.

3.1 Coronavirus Response Investment Initiatives

Already in March the Commission introduced a series of amendments – the Coronavirus Response Investment Initiative (CRII package²⁹) – to allow Member States to benefit from more finance and targeted assistance. This was immediately followed by additional exceptional measures introducing extraordinary flexibility and simplification – the Coronavirus Response Investment Initiative Plus (CRII+³⁰). These measures mobilise Cohesion Policy to flexibly respond to rapidly emerging needs in the most exposed sectors, such as healthcare, SMEs and labour markets, as well as helping the most affected territories in Member States and their citizens.

3.1.1 Coronavirus Response Investment Initiative package (CRII)

The CRII package quickly mobilises European Structural and Investment Funds (ESIF) cash reserves of about EUR 8 billion unused pre-financing for 2019 to provide immediate liquidity to Member State budgets. Given the average co-financing rates across Member States, EUR 8 billion entail about EUR 29 billion in co-financing. Hence, the aim is to frontload the as yet unallocated EUR 37 billion of EU budget support within 2014-2020 Cohesion Policy programmes, i.e. without any additional money from national budgets. As can be seen in the indicative breakdown by Member State (Table 1), significant financial resources are made available for many countries, especially for Spain and Italy as the two EU countries most affected by the pandemic and subsequent crisis.

In addition, all crisis related expenditures are eligible under Cohesion Policy rules, enabling cohesion spending with maximum flexibility to finance crisis-related action. This also means greater flexibility to reallocate financial resources, making sure the money is spent in the areas of greatest need: the health sector, support for SMEs and the labour market. More specific, this flexibility will be achieved by using:

- ERDF and ESF money to invest in healthcare systems;
- ERDF money to help companies tackle short-term financial shocks as a consequence of the crisis (e.g. working capital in SMEs);
- ESF money to support national short time working schemes;
- EMFF money to compensate for losses and safeguard the income of fishermen and aquaculture farmers.

²⁹ OJ L 99/5, 31.03.2020

³⁰ OJ L 130/1, 24.04.2020

Table 20 Indicative breakdown of CRII by Member State

Member State	Amounts to be released as liquidity (1) (EUR million)	Corresponding EU budget (2) (EUR million)	Total investment (3) = (1) + (2) (EUR million)	Remaining ESIF after CRII (EUR million)
Austria	13	6	19	25
Belgium	37	29	66	373
Bulgaria	122	690	812	546
Croatia	174	984	1,158	0
Cyprus	7	39	45	0
Czech Republic	294	869	1,163	3,956
Denmark	18	20	38	47
Estonia	73	222	295	397
Finland	24	24	48	349
France	312	338	650	1,311
Germany	328	498	826	1,906
Greece	355	1,421	1,776	0
Hungary	855	4,748	5,603	0
Ireland	1	1	3	0
Italy	863	1,465	2,318	8,945
Latvia	118	674	792	0
Lithuania	222	1,264	1,487	0
Luxembourg	1	1	2	0
Malta	9	39	48	0
Netherlands	14	11	25	0
Poland	1,125	6,310	7,435	0
Portugal	405	1,407	1,813	0
Romania	491	2,588	3,079	0
Slovak Republic	527	1,948	2,475	146
Slovenia	115	471	586	0
Spain	1,161	2,984	4,145	7,086
Sweden	23	23	46	460
EU-27	7,678	29,073	36,751	25,546
United Kingdom	244	311	555	2,408
Total	7,922	29,384	37,306	27,954

Source: European Commission (2020a) (adjusted).

As a third element, CRII extends the scope of the EU Solidarity Fund, the EU tool for countries hit by natural disasters, to support Member States in this extraordinary situation. Additional support of up to EUR 800 million will be made available for the hardest hit Member States.

With regard to their thematic focus, the new flexibility addresses topics relevant to local and regional development. However, it remains to be seen whether the additional money will help countries hit hardest by the pandemic like Italy and Spain. Both countries still have a significant remaining ESIF budget of EUR 7 bn and EUR 9 billion, respectively. It is unclear whether the money now available will be used to address structural investment needs or for short-term purposes not targeted towards structural change and shared long-term policy objectives.

3.1.2 Coronavirus Response Investment Initiative plus (CRII+)

CRII+ complements the first CRII package by increasing the flexibility of Cohesion Policy rules so ESIF support not yet utilised can be mobilised and fully exploited. This flexibility is provided through:

- transfers across ERDF, ESF and CF;
- transfers between different categories of regions;
- flexibility on thematic concentration;
- a 100% EU co-financing rate for the accounting year 2020-2021;
- simplified procedures for programme implementation, use of financial instruments and audit.

Furthermore, CRII+ provides support to the most deprived regions by changing the rules for the Fund for European Aid to the Most Deprived (FEAD)³¹ and to the European Maritime and Fisheries Fund (EMFF). Amendments to the EMFF will, inter alia, enable a more flexible reallocation of financial resources within Operational Programmes in each Member State and a simplified procedure for amending these programmes.

Looking into the impact on local and regional authorities, the enhanced flexibility of Cohesion Policy rules allows programme authorities to address the most immediate needs in their territories at local and regional levels. Local and regional authorities implementing Cohesion Policy programmes as ESIF managing authorities have to adjust and re-programme their 2014-2020 Operational Programmes. Regions and cities as potential final recipients might consequently benefit from new measures and/or easier procedures. At the same time, this flexibility may risk redirecting cohesion policy resources from long-term structural investment needs towards short-term financial needs. Different examples show that programme authorities use the flexibility to improve emergency services³² and the health sector³³. Nevertheless, increasing flexibility might also entail serving particular interests, especially in countries that still have considerable amounts from the 2014-2020 ESIF budget available.

³¹ For example, food aid and basic material assistance can be delivered through electronic vouchers and protective equipment provided, lowering the risk of contamination. Also, it will be possible to finance measures at 100% for the accounting year 2020-2021.

³² https://ec.europa.eu/regional_policy/en/newsroom/news/2018/12/12-12-2018-cohesion-policy-eur71-million-for-better-emergency-care-services-in-bulgaria

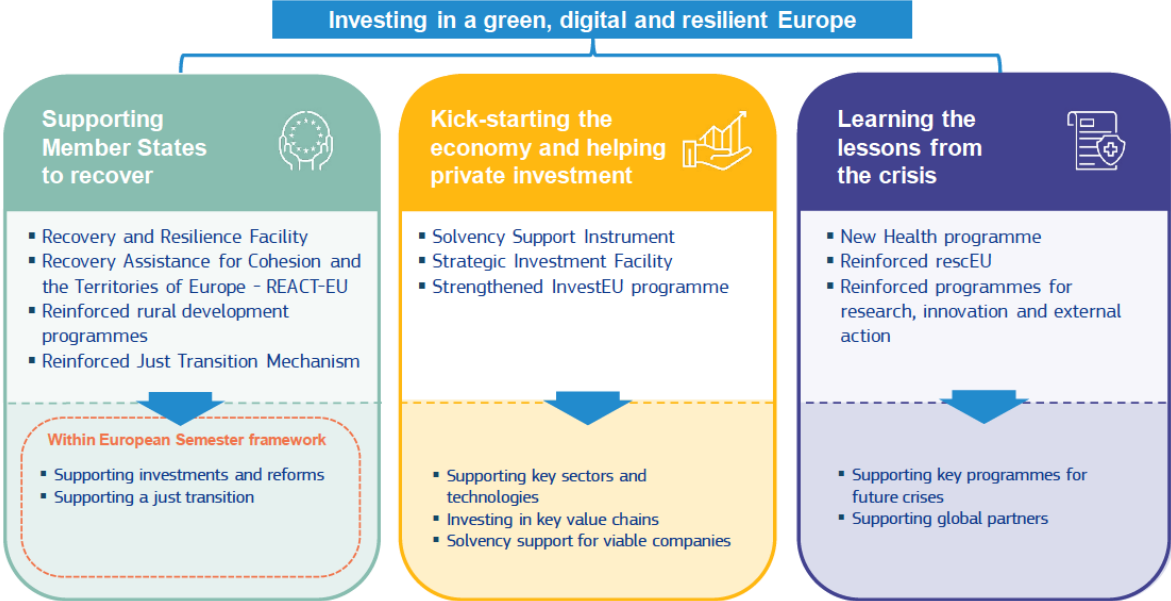
³³ https://ec.europa.eu/regional_policy/en/newsroom/news/2020/05/28-05-2020-interreg-emr-programme-launches-covid-19-call
https://ec.europa.eu/regional_policy/en/information/publications/factsheets/2020/the-coronavirus-response-investment-initiative-in-slovenia

3.2 Next Generation EU

In its statement from April 2020, the CoR Conference of Presidents called for a recovery plan for the European Union in line with the European Green Deal and digital transition agenda. In May 2020, the European Commission published a proposal for a Council Regulation establishing a EU Recovery Instrument (COM(2020) 441 final/2), also referred to as ‘Next Generation EU’. This will provide up to EUR 750 billion for different programmes and types of support (non-repayable grants, repayable loans, guarantees) supporting the next Multiannual Financial Framework with particular focus on 2021-2024 (see Table 21). ‘Next Generation EU’ has three pillars (see Figure 8):

- The first ‘Supporting Member States to recover’ is the key element. It accounts for about 87% of the budget and provides financial support through loans and grants for public investments, structural reforms and just transition.
- The second ‘Kick-starting the economy and helping private investment’ accounts for about 8% of the budget. It provides guarantees for two new instruments (a Solvency Support Instrument and a Strategic Investment Facility) and the existing InvestEU instrument – the EU’s flagship investment programme to boost job creation and support innovation.
- The third pillar ‘Learning the lessons from the crisis’ aims at increasing capacities and building resilience to future shocks and crises, not only in Europe but also in other parts of the world. 5% of the total budget is allocated to measures and programmes under this pillar.

Figure 8 Three pillars of 'Next Generation EU'



Source: European Commission (2020h).

Table 21 Overview of programmes and instruments under ‘Next Generation EU’

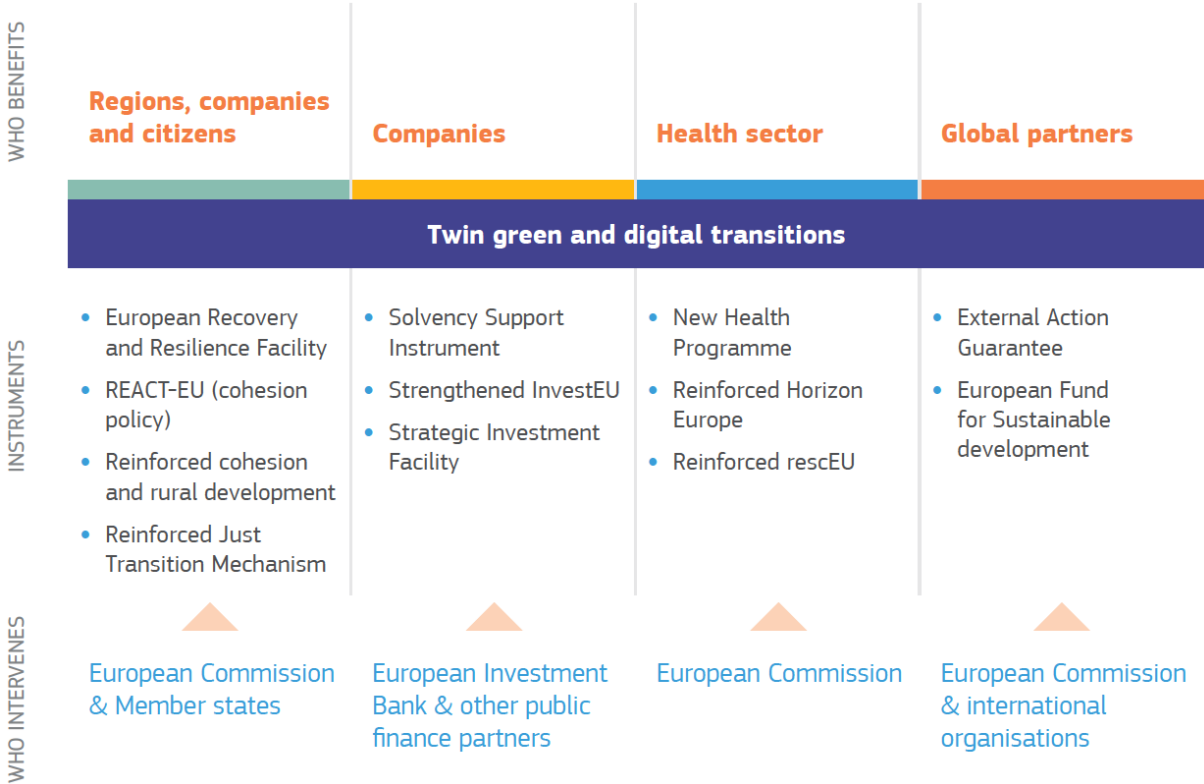
Pillar	Name according to the proposal for a Council Regulation (COM(2020) 441/2 final)	Programme / instrument	Budget (EUR bn)	Main type of support
Supporting Member States to recover, repair and emerge stronger from the crisis – EUR 655 bn (87 %)	Structural and cohesion programmes of the MFF 2014-2020 as reinforced until 2022	Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) / European Regional Development Fund and Cohesion Fund	50	Grants
	Programme financing recovery and economic and social resilience via support to reforms and investments	Recovery and Resilience Facility	310	Grants
	Programmes supporting territories in their transition towards a climate-neutral economy	Just Transition Fund	250	Loans
	Development in rural areas	European Agricultural Fund for Rural Development (CAP pillar II)	30	Grants / loans
Kick-starting the economy and helping private investment – EU 56.3 bn (8 %)	Programmes aiming at supporting investment operations in the field of Union internal policies	Strategic Investment Facility	15	Guarantees
		InvestEU Fund	15.3	Guarantees
	Programmes aiming at strengthening the solvency of economically viable businesses in the Union	Solvency Support Instrument	26	Guarantees
Learning the lessons from the crisis and addressing Europe’s strategic challenges – EUR 38.7 bn (5 %)	Programme related to health	EU4Health	7.7	Grants
	Programmes related to civil protection	Union Civil Protection (rescEU)	2	Grants
	Programmes related to research and innovation, including support for financial instruments	Horizon Europe	13.5	Grants / loans
	Providing humanitarian aid outside the Union	Humanitarian Aid	5	Grants / loans
	Programmes aiming at fostering sustainable and inclusive economic growth outside the Union	Neighbourhood, Development and International Cooperation Instrument	10.5	Guarantees

Source: Own elaboration, based on COM(2020) 441 final/2 and COM(2020) 442 final.

Pillar 1 explicitly addresses regions, companies and citizens as the main beneficiaries (Figure 9). Due to its financial size as well as a general focus on Cohesion Policy, just transition and rural development, pillar 1 is of particular relevance for cities and regions. Pillar 2 focuses on companies and pillar 3 on the health sector and global partners outside the EU. These two pillars are of less relevance for regions and cities and are therefore not taken into consideration.

Four programmes are subsumed under pillar 1: The European Recovery and Resilience Facility, the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU), the programme to support territories in their transition towards climate neutrality and the programme for development in rural areas.

Figure 9 Key players and beneficiaries of EU recovery measures and programmes



Source: European Commission (2020g).

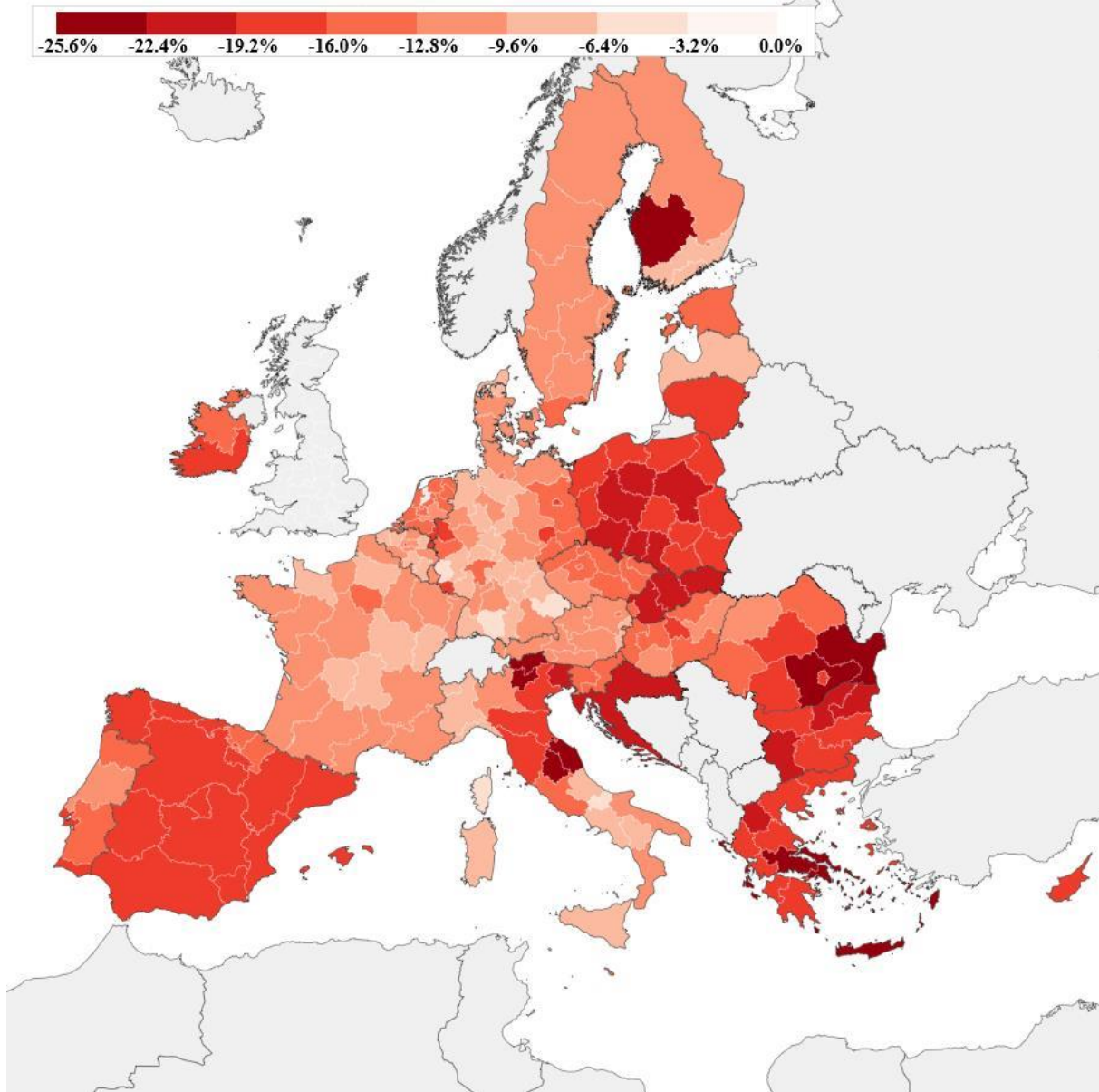
3.2.1 European Recovery and Resilience Facility

The European Recovery and Resilience Facility aims at increasing the resilience of EU economies and fostering sustainable growth in the long term. It is the main programme of the ‘Next Generation EU’ plan and provides a total of EUR 560 billion, of which EUR 310 billion is for non-repayable grants and EUR 250 billion for repayable loans. There are no national co-financing requirements. The money will be used to support investments and reforms with long-term and lasting impacts in all EU Member States.

National Recovery and Resilience plans will be the basis for implementing the Facility. These plans have to be in line with National Reform Programmes and submitted as an annex to them. They will also address the challenges outlined in the Country Specific Recommendations (CSR) and will hence have a strong link with the European Semester. In practice, the European Semester is the main governance framework for the Recovery and Resilience Facility, and the proposal does not explicitly foresee a structured involvement of local and regional authorities in preparing or implementing National Recovery and Resilience plans. As a result, regions and cities will probably have little influence on the design and implementation of the Facility whereas Member States and national governments will be the main decision makers. As long as the partnership principle is not obligatory, local and regional authority involvement will vary between Member States and depend on the approach within each Member State.

For their thematic focus, Recovery and Resilience plans are supposed to be coherent with national energy, climate and Just Transition plans. Digital and green transitions as key challenges for future local and regional development will have to be addressed to ensure a sustainable recovery. Given the size of the Facility (75 % of the 'Next Generation EU' budget), the impact might be significant for many regions and cities. Due to the urgent nature of the proposal to establish a Recovery and Resilience Facility (COM(2020) 408 final), no (territorial) impact assessment was carried out. It is worth mentioning, though, that the Joint Research Centre provided estimates for expected GDP losses in 2020 at the level of NUTS 2 regions (see Map 6). However, it is unclear whether and how the territorial dimension of COVID-19 crisis impacts will be taken into consideration and what role local and regional differences and specificities will play in the design and implementation of the Facility. With the national governments being the main decision makers, the role of regions and cities in decision-making and implementation is expected to be limited.

Map 6 GDP impact at NUTS 2 level excluding the impact of policy measures



Source: Joint Research Centre (SWD(2020) 98 final, 2020).

3.2.2 REACT-EU

The Recovery Assistance for Cohesion and the Territories in Europe (REACT-EU) provides EUR 50 billion³⁴ to extend and provide additional funding for current (2014-2020) structural and cohesion programmes until 2022. In contrast to the Recovery and Resilience Facility which has a long-term orientation, it aims at financing short-term repair actions and, hence, at bridging the gap between immediate and first-responses to the pandemic with long-term structural recovery

³⁴ In total, EUR 55 billion are available for REACT-EU because of an additional EUR 5 billion for 2020 from the adapted multiannual financial framework 2014-2020 (COM(2020) 423 final). For consistency, we stick to the numbers in the proposal for a Council Regulation, COM(2020) 441 final/2, on the allocation through 'Next Generation EU'.

measures. The Recovery Assistance offers flexible grants for EU Cohesion Policy programmes that require no national co-financing.

With regard to its thematic focus, REACT-EU will provide grants for labour markets, short-time work schemes, youth unemployment measures, support to healthcare systems and liquidity for SMEs, including tourism and culture. Support can furthermore be used for investments to implement the European Green Deal and digital transition. So REACT-EU shows strong links to the most pressing challenges and sectors hit hardest by the crisis. It remains unclear how however the money will be used by Member States and/or managing authorities.

Despite the close link with EU Cohesion Policy, REACT-EU does not apply the same allocation criteria as Cohesion Policy programmes. The distribution key is not based on regional data at NUTS 2 level and does not refer to different categories of regions. Instead, Member States can decide where to spend the money and target it towards certain regions. Whether these regions have the greatest need or suffer most severely from impacts of the crisis, cannot be taken for granted without any objective criteria. National governments can even decide to create new national programmes instead of channelling the funding into existing regional programmes.³⁵ It is therefore important that structurally weak regions and most severely affected regions receive funding and are not by-passed by national governments or economically stronger and better positioned regions with more advanced institutional capacities.

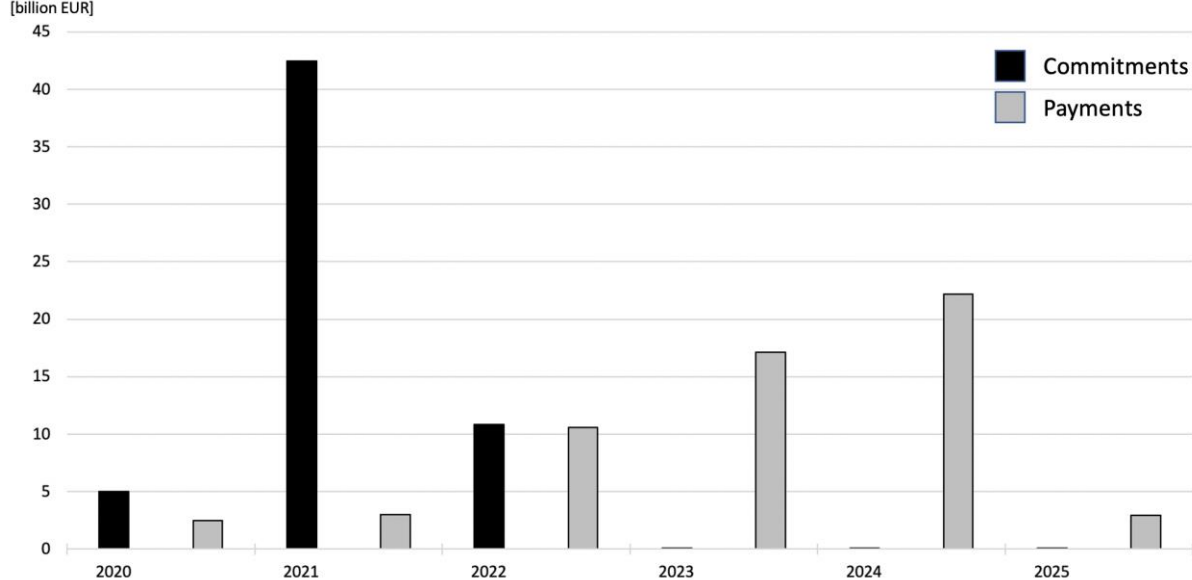
Even if regional programme authorities receive funding and can decide independently how to spend it, they may not currently have the capacity to invest in long-term structural transition or may be incentivised to serve short-term special interests. They are already under enormous pressure to tackle the crisis, especially the hardest hit region, and may have little capacity to thoroughly assess the new situation. Second, they have to re-programme the current funding period 2014-2020 and still need to prepare the next funding period 2021-2027. This overlap might lead to overburden and could also influence the quality of EU Cohesion Policy programmes.

Another relevant aspect regarding the expected impact on cities and regions refers to the availability of funding. The entire REACT-EU budget (including the additional EUR 5 billion from the adapted 2014-2020 framework; see section 0) is reserved for 2020-2022, i.e. at the beginning of the 2021-2027 funding period. Even so, the European Commission expects that less than 30% of the money will be paid out to programme authorities by the end of 2022 (Figure 10). It will then take several more months or even years until final recipients actually receive the

³⁵ See (CPMR/CRPM, 2020) for a detailed analysis.

money. Given the extent of the crisis and the uncertainty about its mid-term impact, the timeliness of REACT-EU remains unclear.

Figure 10 Commitments and payments under REACT-EU 2020-2025 (in current prices)



Source: Own elaboration based on COM(2020) 451 final.

The Recovery Assistance will be very relevant for local and regional authorities. It remains however unclear whether cities and regions will receive the money before the impact of the crisis fully unfolds. The allocation criteria for REACT-EU also entail a risk of national governments and/or strong regions by-passing the interests and needs of comparatively weak regions. National governments will decide how strong the territorial dimension of REACT-EU will be and whether it will be used for long-term structural investments or focus on short-term expenses and serve special interests, especially since the flexibility rules of CRII+ also apply to REACT-EU. Furthermore, the European Commission proposes (COM(2020) 450 final) to include elements introduced within the CRII context in its proposal for the Common Provisions Regulation 2021-2027 for EU Cohesion Policy (COM(2018) 375 final).

3.2.3 Just Transition Fund

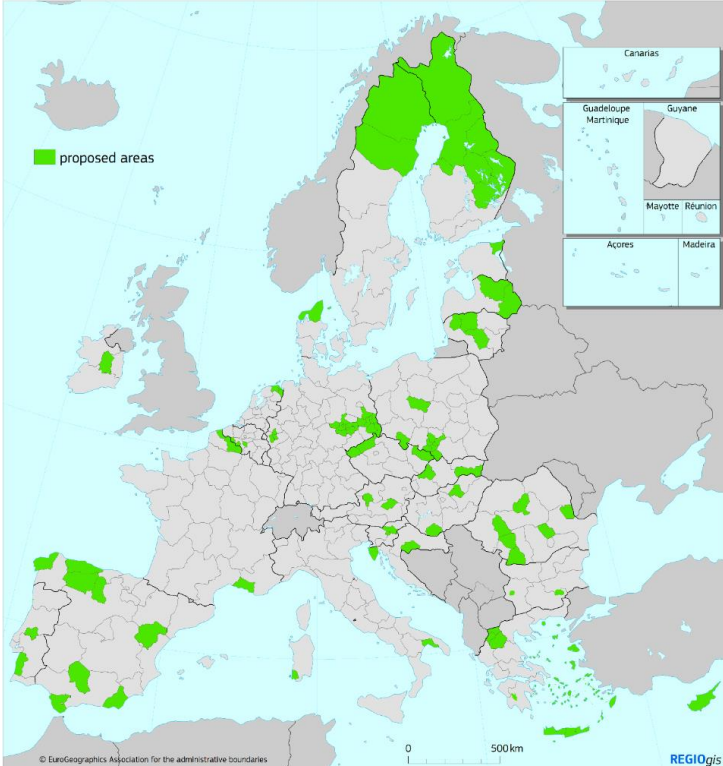
The programme supporting territories in their transition towards a climate-neutral economy increases the financial envelope of the Just Transition Fund (JTF) by EUR 30 billion.³⁶ The Just Transition Fund as a pillar of the Just Transition

³⁶ In total, EUR 40 billion are available for the Just Transition Fund: EUR 10 billion for 2021-2027 from the adapted Multiannual Financial Framework 2021-2027 and EUR 30 billion for 2021-2024 from ‘Next Generation EU’ (COM(2020) 442 final). For consistency, we stick to numbers mentioned in the proposal for a Council Regulation, COM(2020) 441 final/2, on the allocation through ‘Next Generation EU’.

Mechanism (InvestEU Just Transition scheme and a new public sector loan facility being the other two pillars) aims at supporting regions most affected by the transition towards a climate-neutral economy. The initial envelope of the Just Transition Mechanism contained EUR 7.5 billion, i.e. the ‘Next Generation EU’ boost (EUR 30 billion) and Multiannual Financial Framework 2021-2027 appropriations (EUR 2.5 bn) imply an increase of more than 400%. As regions presumably eligible for Just Transition Fund are selected on a set of criteria, their number is limited (Map 7).

The increase in the Just Transition Fund envelope implies a considerable increase in the budget available for this limited number of regions. The explicitly strong territorial dimension of the Just Transition Mechanism with a clear focus on regional characteristics, needs and challenges, underlines the particular relevance of this measure for benefitting regions and a place-based approach.

Map 7 Just Transition Fund eligibility (preliminary)

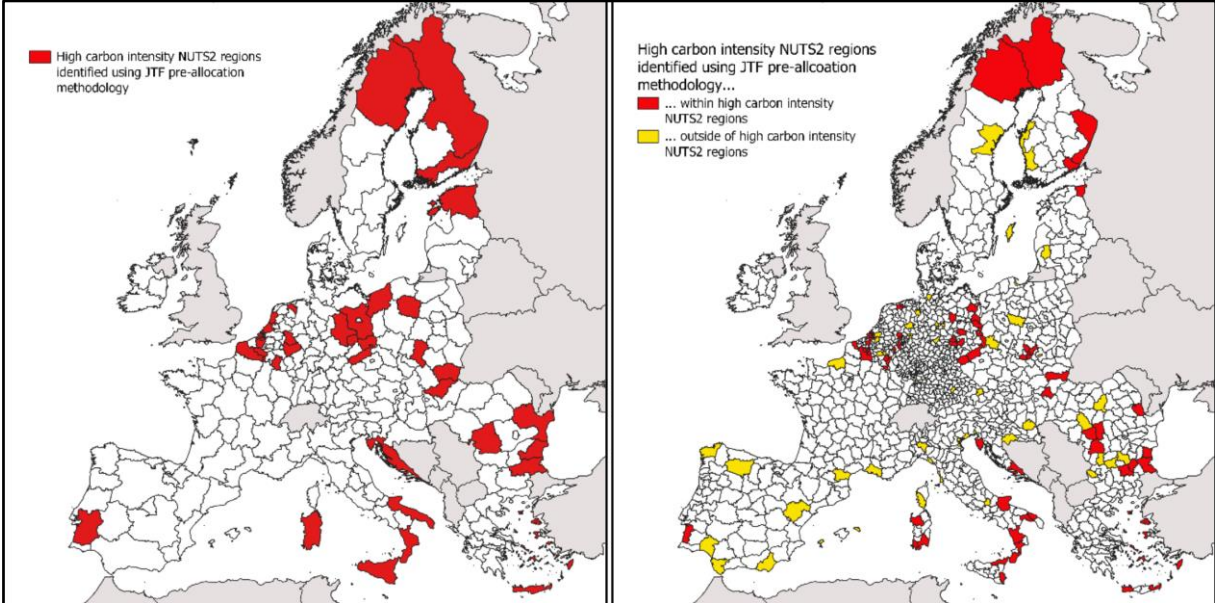


Source: European Commission (2020d).

Significantly boosting the envelope of the Just Transition Fund however also raises the question whether the regions are selected at the most adequate territorial level. The pre-allocation formula of the Just Transition Fund is based on NUTS 2 data whereas the Territorial Just Transition Plans consider NUTS 3 regions as the appropriate territorial level. This inconsistency implies that NUTS 3 regions where carbon-intense industries are very relevant will not be taken into consideration for the Just Transition Fund because their regional specificities are

levelled out at the NUTS 2 level. A recent study on behalf of the European Parliament showed that many carbon-intensive NUTS 3 regions are located outside carbon-intensive NUTS 2 regions and would be eligible for funding through the Just Transition Fund if the pre-allocation formula was based on NUTS 3 data (see Map 8) (Cameron, Claeys, Midões, & Tagliapietra, 2020).

Map 8 Just Transition Fund NUTS 2 versus NUTS 3 high-carbon intensity regions



Source: Cameron et al. (2020).

3.2.4 European Agricultural Fund for Rural Development (EAFRD)

The programme for development in rural areas increases the budget of the European Agricultural Fund for Rural Development (EAFRD) by EUR 15 billion, i.e. pillar 2 of the Common Agricultural Policy (CAP). This implies an increase for EAFRD in the Multiannual Financial Framework 2021-2027 by 20% from EUR 75 billion to EUR 90 billion.

As the intended increase in the EAFRD budget of EUR 15 billion does not imply a major shift in quantitative or qualitative terms but is restricted to a slight budgetary increase in the second pillar of the Common Agricultural Policy (CAP), the relevance of this measure and impact on regions and cities is limited.

3.3 An adapted budget for 2020

To reflect the impacts of the recovery plan and make funding available as soon as possible in 2020, the European Commission proposed a draft amending the general budget in June 2020 (COM(2020) 423 final). This will respond swiftly to the most pressing needs resulting from the economic crisis. In total, EUR 11.54 billion shall be made available for:

- ERDF and ESF: To provide additional funding in 2020, EUR 5 billion are to be used under ERDF (approx. EUR 3.5 billion) and ESF (approx. EUR 1.5 billion). Member States are entitled to use this money to support repair and recovery of the hardest hit regions . Alternatively, they can decide to voluntarily increase the allocation for programmes supported by FEAD.
- European Fund for Strategic Investment (EFSI): A solvency support instrument with a budget of EUR 5 billion shall mobilise private capital to support the solvency of companies affected by the crisis. It shall mainly be used for the EFSI Guarantee Fund (EUR 4.98 billion) but will also provide support expenditure (EUR 2 million) and increase the envelope of the European Investment Advisory Hub and the European Investment Project Portal (EUR 18 million).
- European Fund for Sustainable Development (EFSD): An additional EUR 1.04 billion are made available for guarantees in partner countries. The geographic scope of EFSD is extended to the Western Balkans and the period to conclude guarantee agreements to 2021.
- European Investment Fund (EIF): In order to maintain the financial capacity of the EIF and preserve its high-grade profile on financial markets, EIF capital will be increased in 2020 by EUR 500 million.

The general purpose of the amended 2020 budget is to frontload the European Recovery Plan and provide immediate assistance. In this regard, it complements CRII and CRII+. However, given the size of the ‘Next Generation EU’ instrument, the impact of the frontload is expected to be limited. It is furthermore unclear whether the money is spent at local and regional level for a sustainable recovery, or is subject to rushed budget decisions rather than long-term and structural investment needs.

3.4 Conclusions on EU recovery measures

Our assessment of the relevance and impact of EU recovery measures already in place or still under development, points towards conclusions that can feed into the debate on the best scope and extent of recovery measures for European cities and regions.

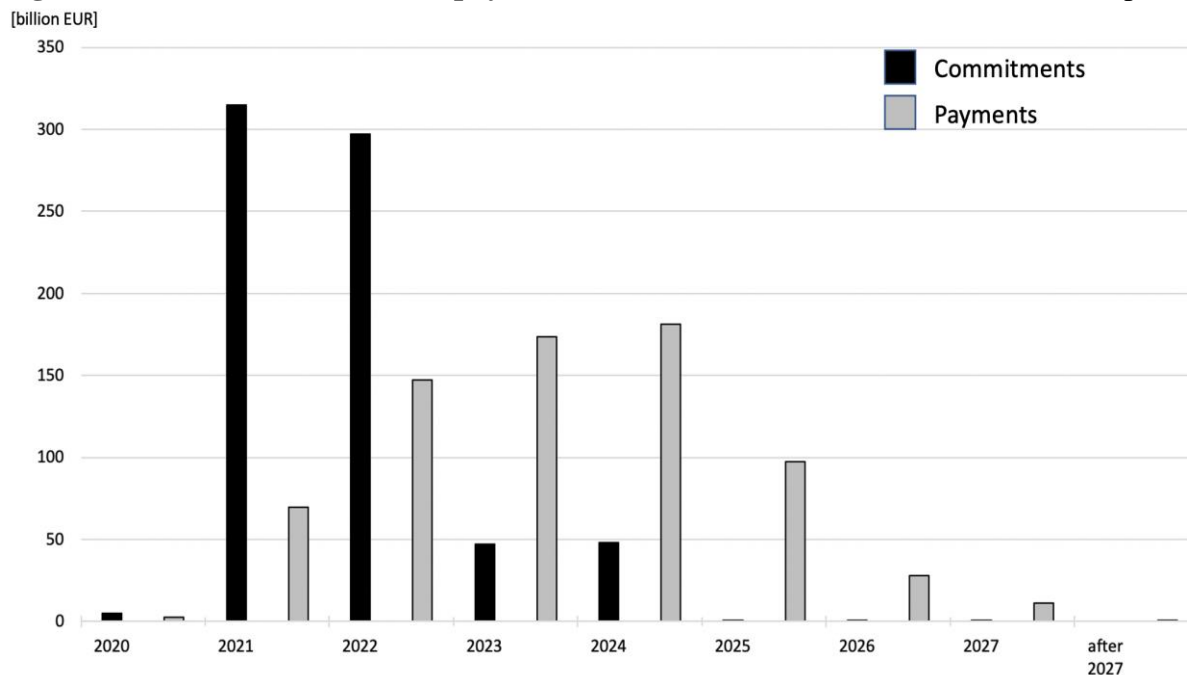
The main rationale behind the European Recovery Plan and related measures seems to be: *'We do more of what we did in the past and we do it with greater flexibility.'* Simply pumping more money into the system might not do the trick for several reasons. In addition, the European Recovery Plan might entail several implications for local and regional authorities.

- In some Member States, especially those hit hardest by the crisis like Italy and Spain, programme authorities have not had the administrative capacity to absorb all ESIF funding in the past. It remains unclear where this capacity should now come from so they can invest the additional financial resources sustainably and make a real difference.
- Extending the current funding period and frontloading the next one seems to be a reasonable approach to bridge the gap in the transition phase. However, such overlapping requires programme authorities to revise the current programme while still preparing the next programme. This increases the administrative burden for programme authorities and might lead to a decline in the quality of programming.
- As can be observed since the beginning of the pandemic, national governments take the main decisions. Also, for most EU recovery measures, they are in the driver's seat and decide where the money is spent and for what purpose. Regions and cities run the risk of being by-passed. Hence, the recovery measures could accelerate the existing trend of renationalisation and recentralisation in policy making and implementation.
- There is also a risk of dismantling the existing ESIF governance framework developed over the last 30 years within Member States. It might not only be a loss in terms of ESIF effectiveness but also a setback for the administrative-institutional position and for local and regional authorities involved in ESIF management.
- For REACT-EU, no strategic criteria are applied. Instead, distribution is in the hands of national governments. Which regions receive funding, whether

these regions actually have the most need and which distribution mechanisms are applied, might become less transparent. Strong regions and regions with advanced institutional capacities might be in a better position to lobby for their interests and benefit more from the recovery measures than weaker regions or regions with less advanced institutional capacity. This might increase inter-regional disparities.

- The risk is also that overburdened cities and regions may tend to not make innovative and ground-breaking investments which require a lot of time, effort and technical skills. Instead, they might be tempted to go for easy and quick gains – helicopter money mode. This would be contrary to the principles of concentration and additionality that lead ESIF programme implementation.
- In the past, ESIF programmes put strong emphasis on innovation, research and development. If this rationale is kept, it might benefit regions with a clear profile in related economic sectors. These are often economically strong regions and agglomeration areas. If they benefit while weaker regions fall behind, this can further widen inter-regional disparities between frontrunners and lagging regions.
- If Member States decide not only on the next Multiannual Financial Framework but also have more influence on regional programmes, the distinction between nationally funded and EU-funded regional policies might vanish in the long run. They might increasingly overlap and even become redundant. As a consequence, the actual *European* added value of EU-funded regional programmes may not lead to a long-term structural change in EU Cohesion Policy. In the long-term, EU Cohesion Policy may not be needed after all. The European perspective on regional development would then be lost entirely.
- Although a lot of money will be pumped into the system it is unclear whether this will trickle through the administrative levels to final recipients before the crisis fully unfolds. About 85% of the European Recovery Plan budget will be committed for the next 2.5 years, i.e. until the end of 2022. By then, however, only about 30% is expected to be paid out to programme authorities. Even if it is paid out, it will take even more time until a local or regional recipient receives any financial support (see Figure 11).

Figure 11 Commitments and payments under 'Next Generation EU' (in current prices)



Source: own elaboration based on EU COM proposals for sectoral legislation³⁷.

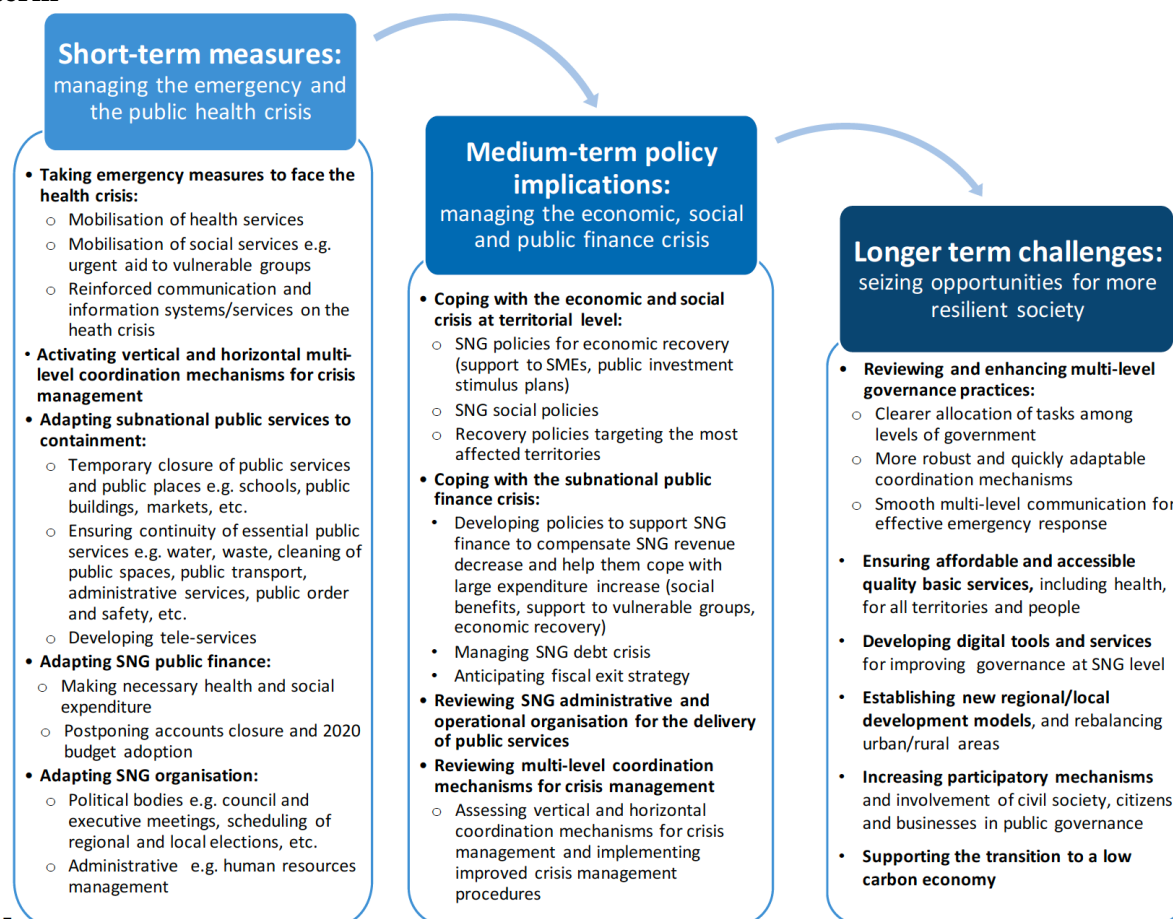
A second important feature is the diversity of European cities and regions which also influences the relevance and impact of EU recovery measures. Three main points illustrate the importance of acknowledging this diversity:

- For recovery measures under Cohesion Policy, one needs to distinguish between sub-national authorities responsible for programme management and those not directly involved or are recipients of ESIF funding. Depending on the context, regional preconditions or their relationship with national governments, some sub-national authorities might benefit more from EU recovery measures than others.
- The Just Transition Fund is the only recovery instrument with a strong territorial dimension. It clearly strengthens the position of regions and addresses their specific needs and challenges. Particular attention therefore needs to be paid so all regions suffering from transition towards climate neutrality will benefit from the Just Transition Fund. As was shown, a pre-allocation formula based on NUTS 2 data might not be the most appropriate approach to identify regions in most need and address this diversity across Europe.
- Lastly and looking beyond the European Recovery Plan, European regions and cities face different short, medium and long-term challenges, all of

³⁷ https://ec.europa.eu/info/publications/mff-2021-2027-sectoral-acts_en

which need to be addressed with various policy measures (Figure 12). Striking a balance between quality and speed will be key to developing adequate policy responses for present and future challenges.

Figure 12 Managing COVID-19 at subnational level in the short, medium and long term



Source: OECD (2020b)

4 Lessons Learnt

Analysis of potential impacts of the COVID-19 pandemic on cities and regions in Europe suggests there is room for improvement by increasing resilience to crises and by supporting the socio-economic recovery process which started in early summer 2020.

The geography of the COVID-19 outbreak, as well as the regional diversity of exposures and sensitivities to policy responses show that territory matters. The diversity of European cities and regions translates into the diverse impacts of COVID-19, how they handle the pandemic and how they manage recovery.

The pandemic has demonstrated that European regions and cities are interwoven in tight networks of mutual interdependence. What happens in one place affects developments in other places. This became visible in the territorial spread of the outbreak as well as in the impacts of various lockdowns and will also be seen in the recovery processes.

Furthermore, the pandemic has illustrated the mismatch of local, regional and national administrative borders to the functional geographies of people's everyday lives. This could be seen during the outbreak which followed functional interactions and geographies rather than administrative delineations. The mismatch was also evident in the disruptive effects that closed regional and national borders had on integrated labour markets and the provision of services of general interest, especially healthcare.

Therefore, recommendations are that:

- Europe's territorial diversity needs to be reflected in policy responses which also take into account local and regional knowledge;
- cooperation between places, cities, regions and countries is crucial since a challenge such as COVID-19 cannot be addressed singlehandedly; and
- European approaches and solutions are needed – rather than national ones – to better reflect the interdependencies of places and the mismatch of administrative delineations to the geography of a crisis.

Going into further detail, policy recommendations in three tightly interlinked areas can be identified.

4.1 Healthcare resilience

The outbreak of COVID-19 and the immediate policy responses concerning healthcare systems across Europe show there is scope to improve resilience and capacities to handle crises.

While most of the lessons learnt concern national, regional or local healthcare systems, some European-wide conclusions can be drawn:

Endorse cross-border healthcare structures: Cross-border thinking is not just a state of mind, but a reality in many parts of Europe. Unilateral closures of national borders lead to disruptions in cross-border provision and staffing for healthcare services relying on cross-border commuters. To strengthen resilience in the healthcare system it is important that cross-border structures can function without disruption.

- ⇒ Cities, regions and Member States should apply the guidelines on EU emergency assistance in cross-border healthcare cooperation related to the COVID-19 crisis (European Commission, 2020f).
- ⇒ The European Commission could further develop these guidelines and set up structures which prevent border closures affecting access to, or the provision of, healthcare services. This can include amending the draft Interreg regulations (COM(2018) 374 final), Articles 14.3c and 14.3.d, in accordance with these guidelines.
- ⇒ The CoR could collect and disseminate good practice examples of healthcare cooperation across borders between March and June 2020.

Strengthen healthcare cooperation between cities and regions across Europe: The health crisis and pressure on the healthcare system differed between places in timing and intensity. While that could have enabled cooperation and burden sharing, there are many examples of competition for healthcare equipment and staff. More cooperation between cities and regions in Europe to learn from each other and share healthcare facilities, equipment and staff may ease the burden and increase resilience. This could include staff training and exchange, transfers of patients, as well as cooperation on stockpiling, producing and buying medical equipment. For such cooperation to work smoothly in times of crisis, cooperation patterns and mutual trust need to be built up over a long period.

- ⇒ Cities, regions and Member States should actively build and nourish cooperation in the healthcare sector to ensure there are established and trusted

contacts to fall back on in times of crises. This can also include staff exchanges under TAIEX, the Technical Assistance and Information Exchange instrument of the European Commission.

- ⇒ The European Commission could strengthen cooperation on healthcare in future Interreg programmes as well as in cross-border cooperation of mainstream Cohesion Policy programmes. This can include introducing healthcare and emergency services in the draft Interreg regulations (COM(2018) 374 final), Article 14.4a.
- ⇒ The CoR could establish an interactive platform for its members to collaborate on healthcare issues and establish links and cooperation also outside the framework of specific EU policies or funds.

Promote cooperation on a bottom-up European e-health system: In many parts of Europe, telemedicine and e-health have experienced a boost during the lockdown. This holds considerable potential for cooperation between cities and regions in Europe to enable better burden sharing and resilience in future crises, especially being able to draw on each other's capacities. A European telemedicine platform based on bottom-up approaches, which facilitates mutual support and information exchange could be a huge asset.

- ⇒ The CoR and Member States could provide targeted information on EU funding opportunities and networks for building bottom-up cooperation on a European e-health system.
- ⇒ The European Commission could strengthen activities supporting the development of a European e-health system through its policies. This could be strengthened under Horizon Europe and Interreg Europe could be asked to set up a policy learning platform for this.
- ⇒ The European Commission could facilitate the involvement of local and regional authorities in the European Solidarity Corps³⁸, the new Health Programme and the European Civil Protection and Humanitarian Aid Operations (rescEU).

³⁸ The European Solidarity Corps is the new European Union initiative which creates opportunities for young people to volunteer or work in projects in their own country or abroad that benefit communities and people around Europe.

4.2 Funding recovery

Both the EU and Member States are working on funding schemes to support the recovery process and to increase resilience for future crises.

While there is still no clear picture on the various needs for funding, some reflections can be drawn concerning a sustainable recovery and future for all places and people:

Ensure triple targeting of EU recovery funding: Recovery funding needs to address three types of needs at local and regional level:

- **Support to cities and regions with highly affected economic sectors:** The impacts of COVID-19 policy responses vary between cities and regions largely due to their economic structure (see Maps 1 - 3). The share of employment in sectors highly affected by the lockdowns and distancing measures matters substantially. This affects not just companies in these sectors but also has wider knock-on effects for cities and regions where they are located. Cities and regions which are highly dependent on tourism, manufacturing or wholesale sectors and regions with high shares of SMEs and self-employment are particularly at risk from knock-on effects.
- **Support to cities and regions with structural challenges:** Economic development challenges for cities and regions have increased due to COVID-19 policy responses. Areas with structural weaknesses or geographic specificities – in particular islands – risk more severe impacts. This can be due to reduced transport and communication services and often to lower preparedness to work from home. Therefore, to avoid an uneven playing field, recovery funding needs to give particular support to regions which faced economic or geographical challenges prior to COVID-19. Otherwise, there is a risk that the socio-economic gap and disparities between regions in Europe will widen.
- **Support to cities and regions with social challenges:** The impacts of COVID-19 play out differently across society. Weaker groups (including the elderly and migrants) and low-income groups are often more affected than others. This concerns economic losses (reduced income due to job losses or part-time unemployment), losses of social integration and the disruption of support structures. Cities and regions with high shares of people in these groups need particular support to ensure that social disparities and imbalances do not widen. The risk is that increasing social disparities in these places translate into increasing disparities between these

and other places with less social cohesion in Europe and more ‘places that do not matter’.

- ⇒ The European Commission could ensure that Next Generation EU and future Cohesion Policy measures are used strategically following the triple targeting towards cities and regions with (a) highly affected sectors, (b) structural challenges, and (c) social challenges.
- ⇒ Member States and regions could develop ambitious programmes ensuring triple targeting for EU funding towards cities and regions with (a) highly affected sectors, (b) structural challenges, and (c) social challenges.
- ⇒ The European Commission, Eurostat, JRC and ESPON could collect data and monitor the recovery processes with regards to specific sectors and structural changes at local and regional level.
- ⇒ European Investment Bank could keep experimenting and disseminating social impact instruments to leverage public resources and build solid private-public partnerships, e.g. via fi-compass.

Increase adaptive capacity of production processes: There is no way to plan production for the next crisis. The industry’s capacity to quickly adapt production processes to changing needs in the face of an emergency or crisis helps to increase resilience. This requires also safeguarding that the value chains of crucial production processes are not entirely outsourced to other parts of the world. Can funding be made available for industries to increase their adaptive capacities and keep important production processes in Europe?

- ⇒ The CoR could stimulate a debate about which types of production are crucial for crisis management in Europe and which should be ensured within the EU, in every Member State or at regional level. This may also include setting up emergency storage facilities.
- ⇒ The European Commission could strengthen work on the European industrial strategy considering the necessity to ensure that crucial production is located in the EU, while coping with global competition.
- ⇒ National, regional and local authorities could use their work on smart specialisation strategies to strengthen flexible production processes (adaptation to crisis needs) as well as the possibility to produce essential goods.

Ensure long-term transition to a sustainable and digital Europe: The need to boost economic recovery holds the potential to stress the transition towards a more sustainable and digital Europe (see also Umweltbundesamt, 2020). At the same time, there are risks that issues of sustainability and digitalisation are side-lined as being too cumbersome and time-consuming given the need for quick economic recovery.

- ⇒ Member States and regions need to prioritise recovery investments supporting a long-term transition to a sustainable and digital Europe. This could also be included in work on smart specialisation strategies.
- ⇒ The European Commission could introduce funding conditions for Next Generation EU which ensure that the recovery process is used to accelerate the sustainable and digital transition. This could also include stronger collaboration with Horizon Europe and the European industrial strategy.
- ⇒ The CoR could support an EU-wide debate among its members on how to ensure that recovery measures lead to a long-term transition to a sustainable and digital Europe. This could include collecting good examples and stimulating peer learning.

Balance short-term flexibility and medium-term quality: Many recovery measures increase flexibility in the current regulatory framework, especially for State aid and Cohesion Policy. While this is welcomed by many players, such flexibility comes with risks which need to be addressed in decision making. Firstly, the increased flexibility in Cohesion Policy risks a focus on ‘easy and quick’ projects rather than structural investments. So, the quality of investments might decrease in terms of governance, accountability, innovation and result-orientation. Secondly, flexibility on State aid risks creating an uneven playing field, with Member States, regions and cities which have more fiscal space making money available more easily than those with tighter budget constraints. This way, the flexibility may lead to increasing disparities in the long-term.

- ⇒ Member States and regions need to make wise use of the increased flexibility to ensure positive long-term developments.
- ⇒ The European Commission should closely monitor the use of increased regulatory flexibility and assess it for possible unintended side-effects. Especially for REACT-ET, the European Commission should evaluate the processes and results to facilitate a public debate on use of the funds.

4.3 Governance capacities

Supporting recovery and increasing resilience are often about governance, government quality and administrative capacities (e.g. Dijkstra et al., 2018; Rodríguez-Pose, 2020, 2020; Rodríguez-Pose & Ketterer, 2019). Indeed, the quality of government is an increasingly important development factor, as the marginal utility of an investment in infrastructure, human capital and technology for regional economic development is lower in areas with poor quality government. Governance-related differences will affect the effectiveness of recovery policies and funding in European cities and regions.

While most conclusions and recommendations concerning the need to improve the quality of government, governance and administrative capacity are known, it is worthwhile repeating a few in the light of the COVID-19 experience:

Strengthen EU-wide coordination: The COVID-19 experience has shown the need to improve EU-wide coordination and contingency planning. This particularly concerns coordination when national borders are closed (unilaterally) and when EU Member States, regions or cities suddenly act as competitors on the global market for emergency products and capacities.

- ⇒ The European Commission should strengthen its efforts to avoid unilateral and uncoordinated responses to crises which affect all Member States and spread across the Union due to high levels of interdependence between places in different countries. Furthermore, the cross-border dimension could be taken into consideration in the new Health Programme and the reinforced rescEU.
- ⇒ EU macro-regional strategies could support the development of specific emergency plans in cooperation with Interreg programmes.

Review multi-level governance and coordination systems: In many cases vertical coordination – between levels of government – within countries seems to have functioned in accordance with established routines. However, it seems there are more mixed experiences with horizontal coordination between sectors or between regions and cities within a country. An EU-wide reflection and analysis of lessons learnt on multi-level governance within countries may help the sharing of experience and mutual learning. This in turn may help to increase resilience in future.

- ⇒ The CoR could launch an in-depth study on the functioning of multi-level governance and coordination systems in Member States during the pandemic, also drawing on information collected by the COVID-19 exchange platform.

- ⇒ The CoR should continue to advocate for the involvement of local and regional authorities in the European Semester. This includes increasing awareness of the importance of the European Semester among local and regional authorities, as well as supporting their capacities and capabilities to be proactive. At the same time, the CoR could team-up with national associations of local and regional authorities to boost their involvement in the development of National Reform Programmes.
- ⇒ Member States and regions could use experience during the pandemic to further improve their multi-level governance and coordination systems.

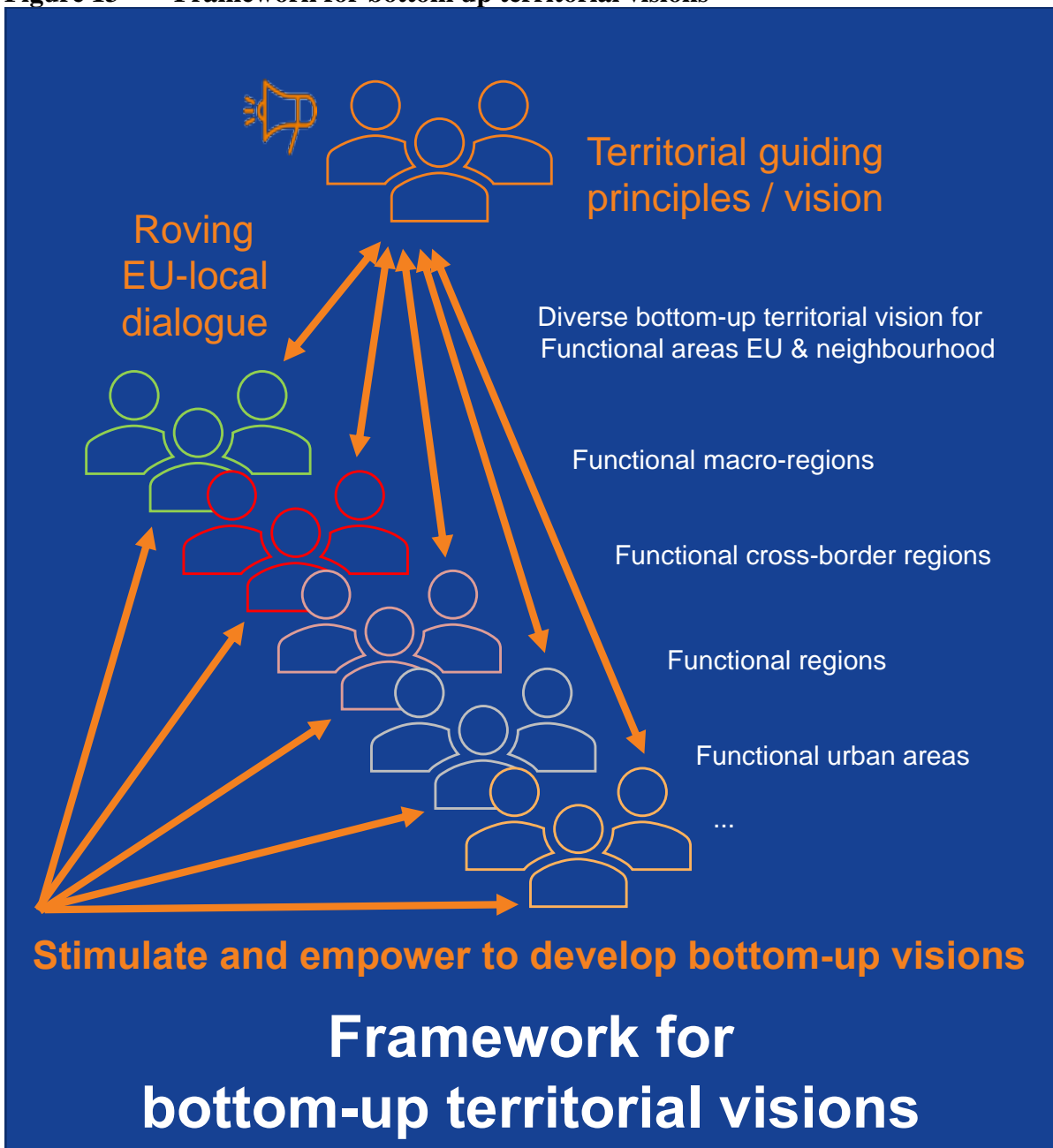
Strengthen cooperation between cities and regions in Europe: EU cities and regions have had very different experiences regarding pressure on the healthcare system, how to deal with policy responses, how to support citizens and businesses during the lockdown and how to boost recovery. Strengthening experience sharing and learning from each other is important. It enables authorities to be better prepared next time and to strengthen networks and trust between players to draw on each other in any future crisis. Most local and regional authorities were looking to experiences elsewhere in the EU for concrete solutions during the lockdown and recovery phases. The CoR and EU networks have already been recognised as useful sources for such information. Interreg programmes offer a good platform for this, but more is needed.

- ⇒ Cities and regions could actively strengthen their cooperation with partners in other countries to ensure there are established and trusted contacts to lean on in times of crises. This can also include staff exchanges under TAIEX, the Technical Assistance and Information Exchange instrument of the European Commission.
- ⇒ The CoR could encourage its members to strengthen their collaboration with each other and establish links and cooperation outside the framework of specific EU policies or funds.

Support internal staff reallocations in public administrations: Internal organisation was an important issue. Good experiences have been reported from cities, regions and countries which managed to move administrative staff between public sector bodies and agencies during the crisis. This allowed flexible and fast increases of personnel in administrative sectors under particular pressure such as contact tracing, information for citizens and businesses as well as handling emergency measures. Lessons learnt from this could be shared so internal organisational obstacles for such staff reallocations can be identified and removed.

- ⇒ The CoR could launch a study or exchange among members concerning experiences with moving administrative staff between public sector bodies and agencies in the times of crisis to increase response capacities and resilience. This could also address lessons learnt and possible bottlenecks for such measures.
- ⇒ The European Commission could increase the use of Cohesion Policy funding to strengthen resilience in public administrations by increasing the flexibility to move administrative staff between public sector bodies and agencies in times of crisis.

Figure 13 Framework for bottom up territorial visions



Source: ESPON (2019)

Strengthen a European framework for bottom-up visions: Good governance and government can react promptly to new situations. It also has a clear vision of the desirable future for the city, region or country. In particular the recovery path towards a sustainable future for all places and people needs a shared vision. This concerns Europe overall; however individual cities and regions also need to have visions for their territories and how they see themselves in a wider European context. ESPON (2019) already proposed the development of a European framework of bottom-up visions (see Figure 13).

- **European framework for bottom-up visions:** The development of bottom-up visions across Europe also needs a larger framework at top levels. Such a framework can inspire or provide insights on how to develop bottom-up visions. It could also serve as a reference where visions can link when addressing their places' role in a European context.
- **Allowing for diverse visions:** Given its diversity, Europe needs diverse and multifaceted bottom-up spatial visions for places and functional regions. These visions need to be realistic, place-based and address how the place links to a wider European perspective. The objectives of such spatial visions may be multifaceted and even contradictory.
- **Empowerment of players:** The capacity to engage in vision developments for a place and in particular for engaging in a vision linking the place to European perspectives differs between places and players. Many players and places might need capacity building and empowerment for such a task.

⇒ The CoR could support the development of a European framework for bottom-up visions in the context of the European 'Citizen's Dialogue', the 'Conference on the Future of Europe' and the 'European Week of Cities and Regions'.

⇒ Member States could support the development of such a framework for bottom-up visions to channel the recovery process in the light of a green and inclusive Europe and a future for all places and people, advocated by intergovernmental work on the Territorial Agenda 2030.³⁹

Stimulate local and regional testing and experimenting: The COVID-19 pandemic and the need for a sustainable recovery highlight the need for new ideas and approaches for local and regional development and resilience. There is no blueprint and there will also not be a one-size-fits-all solution. Therefore, it is important to support local and regional players in exploring new paths, testing and

³⁹ See www.territorialagenda.eu

experimenting, even if there are no guarantees of what the results will be. This is needed to overcome the ‘crisis of imagination’ and allow for places that gather, curate and promote imaginative ideas (Mulgan, 2020). This is about encouraging platforms to exchange new approaches and first experiences and stimulate the use of EU and national funds to support experimental activities. Interreg programmes offer a good starting point, as they are established institutional/ policy innovation platforms familiar to local and regional authorities.

- ⇒ Member States, regions and cities could engage with conscious, deliberate and experimental development approaches and allow for places to explore imaginative ideas.
- ⇒ The CoR could stimulate out of the box thinking, including local and regional testing and experimenting, by disseminating and showcasing innovative examples in their communications and at the ‘European Week of Cities and Regions’.
- ⇒ The European Commission could stimulate local and regional testing and experimenting in the context of Cohesion Policy funding by reducing the focus on applying mainstream approaches.

Strengthen Technical Assistance resources in EU Cohesion Policy: The management of ESI Funds becomes particularly challenging in the context of COVID-19. This concerns the smooth handling of crisis and recovery actions, application of the flexibility rules as well as budgetary changes and an increased overlapping of funding periods. In several cases, ESIF programmes have already helped local and regional authorities to face the emergency and will play a decisive role in the recovery process (see also section 2.1). While all this is generally positive and helpful, it puts particular pressure on teams managing the programmes and requires considerable human resources. The appropriate staffing and allowance for technical assistance resources are important to facilitate good quality results.

- ⇒ The European Commission could overhaul the Technical Assistance rules for Cohesion Policy programmes to enable administrative capacity needed to handle recovery actions.

4.4 Risks and conclusions

The various policy recommendations are closely interrelated, and together point to the need for greater place-sensitive and place-based policy making including local and regional decision makers and their tacit knowledge. At the same time, there is also a need for more cooperation between cities and regions in Europe as well as for stronger coordination of policy responses and actions at European level (see Figure 14).

Figure 14 Lessons learnt from potential impacts of policy responses to COVID-19



Source: own elaboration.

COVID-19 policy responses and recovery approaches also highlight risks which should be taken into account:

Risk of less place-sensitive and more centralised policy making. The health crisis and recovery policies are largely associated with a stronger focus on national decision making. This is also strongly reflected in the EU recovery measures. This was in most cases necessary in the acute phase of the emergency but is much less needed in the recovery phase. Now, the new EU recovery measures risk missing the importance of local and regional authorities and the partnership principle. Increasing centralisation or renationalisation will diminish the roles of regions and cities, and thus reduce place-sensitivity. In addition, it risks harming the subsidiarity framework which has a crucial role in EU institution building.

Risk of focus on liquidity, limiting ambitions on structural investments. Many recovery measures make administrative funding procedures simpler and more flexible. While this is welcomed in general, there is a risk that an increasing focus on fuelling the economy with cash to reduce the risks of increasing unemployment and bankruptcies favours short-term investments over more ambitious high-quality and long-term investments (Valenza & Brignani, 2020). This may lead to missed chances for structural changes including side-lining sustainable development and possible experimental actions.

Risk of long-term imbalances. Social and economic disparities may widen in the wake of COVID-19 and the various policy responses. In addition, the increased level of flexibility (e.g. in State aid and Cohesion Policy) risks contributing to additional disparities as cities and regions in countries with better access to public finance and higher quality government may profit disproportionately.

Every crisis is also an opportunity. We should not miss the opportunity to modernise Europe based on multi-level governance, territorial cooperation and a shared framework for bottom-up visions to ensure a future for all places and people.

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Annex

For this study, the following people were interviewed:

- Belgium
 - Bram de Winne, Province of East-Flanders
 - Stefan Vanbroeckhoven, City of Ghent
 - Bart Candaele, Flanders agency for entrepreneurship and innovation (VLAIO)

- France
 - Florian Bosser, Chief of staff of Jean Castex, Interministerial Delegate in charge of the strategy to exit lockdown in France.
 - Véronique Veyrat, Europe Funds Department, Auvergne Rhone Alpes region

- Italy
 - Andrea Ciaffi, Conference of Regions and Autonomous Provinces (CINSEDO)
 - Michele Michelini, Europe Service Manager, Autonomous Province of Trento
 - Valeria Mancinelli, Mayor in the city of Ancona

- Poland
 - Aleksandra Frelek, Director of European Affairs Department, Ministry of Economic Development
 - Anna Dudek, Slaskie region
 - Andrzej Żuk, Mazowieckie region

- Sweden
 - Roland Engkvist, EU coordinator, Region of Gotland
 - Sverker Lindblad, senior adviser, Ministry of Enterprise and Innovation, Division for Regional Growth and Rural Development

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**European Committee
of the Regions**

Created in 1994 following the signing of the Maastricht Treaty,
the European Committee of the Regions is the EU's assembly of 329 regional and
local representatives from all 27 Member States, representing over 507 million Europeans.

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