

## Research for REGI Committee – EU lagging regions: state of play and future challenges

### KEY FINDINGS

- ) Current approaches to identifying lagging regions are flawed. This study proposes a revised typology, distinguishing between internally lagging regions, divergent regions and extremely low-growth regions;
- ) The EU's transition agenda, i.e. the green, digital and industrial transition, as well as the COVID-19 pandemic, creates specific challenges for lagging regions. This could exacerbate existing regional disparities;
- ) The EU should provide comprehensive and targeted support to lagging regions, ensure that COVID-19 recovery measures target the EU's most vulnerable regions and improve place-based sensitivity.

The EU's lagging regions face significant challenges to transform their economic underperformance. Current ongoing transitions, such as digitalisation and towards a sustainable society, and the COVID-19 pandemic are accentuating these challenges. This is both creating new and exacerbating existing internal divergence within the EU.



### Objectives of the study

The main objectives of this study are to (i) analyse the challenges faced by the EU's lagging regions; (ii) assess how lagging regions are identified; (iii) provide a revised categorisation of EU lagging regions; (iv) analyse and assess EU initiatives directly targeting lagging regions; (v) assess how

The present document is the executive summary of the study on EU lagging regions: state of play and future challenges. The full study, which is available in English can be downloaded at: <https://bit.ly/34pGFPV>

lagging regions are engaged in EU policies; and (vi) provide concrete recommendations on how to improve support for EU lagging regions.

## Identifying and analysing lagging regions

Current approaches to identifying *lagging* regions are flawed, which means that some are not identified as such, while *catching-up* regions are inaccurately grouped under the same category. Both the method of identifying lagging regions and the frequency of monitoring this phenomenon across the EU must be improved.

This study proposes a new typology for lagging regions:

- ) *internally lagging* regions converge to the EU GDP per head average but diverge from their respective national average;
- ) *divergent* regions are relatively poorer regions that do not converge towards the EU average; and
- ) *extremely low-growth* regions have growth since 2000 that has been less than half of the EU average growth since 2000.

The *low-income* group of regions – which has been growing more than the EU average and is thus catching up – is removed from this categorisation since they are *converging* regions (unless they are lagging internally).

The adoption of this new typology will generate a wide range of benefits and added value if it is accompanied by the regular reviewing, monitoring and communication of results; and alignment with and influence over future EU policymaking. One of the many benefits includes a new contribution to the EU evidence base concerning how to address divergence and disparities, based on the analysis of the evolution of the EU's lagging regions. Second, a stronger and sustained commitment from member states to address the challenges of their regions most in need. Third, a more honest and realistic narrative concerning how regions with the greatest distance to cover should address the transition agenda, thereby helping ensure that lagging regions are not subject to a permanent growth problem.

The proposed, revised typology also highlights the diversity of EU regions when it comes to growth performance. It demands targeted policy attention, which has hitherto been largely under the radar of mainstream EU policymaking. This must be addressed urgently in the context of a radical increase in EU investment to support the COVID-19 recovery and post-2020 Multiannual Financial Framework. Many lagging regions should be considered as priorities for future targeted investment and support, especially since many are among the most vulnerable to the negative impacts of the COVID-19 crisis. Given the current rapidity of the decision-making process on how support will be allocated, implemented and managed, this new evidence could strongly feature in the current EU debate.

## The Lagging Regions Initiative

The Lagging Regions Initiative (or Catching-up Regions Initiative) was introduced in 2015 to identify and support the EU's lagging regions. Despite creating an opportunity to make this challenge (more) visible, it was characterised by a level of confusion surrounding the terminology used to identify the most vulnerable regions. It also did not differentiate well between targeted actions and support for the different types of regions it identified (i.e. 'low-growth' and 'low-income'). In general, minimal support was directed towards low-growth regions, despite the evidence that this group is at the

core of the lagging region challenge. The Initiative focuses exclusively on selected catching-up regions in Central and Eastern Europe.

While the Initiative is connected extensively to the World Bank and European Parliament, the findings and impacts from these actions are difficult to track due to the absence of a central repository of information. This makes these relationships and their evolution difficult to follow, thereby contributing to the relatively low visibility of the Initiative.

## Lagging regions and EU policies

The EU's Smart Specialisation Strategy (S3) agenda has been very widely applied to the Initiative and produced important, related findings. However, while S3 can provide a more 'horizontal' policy support function to lagging regions, it should not be understood as the only and/or main tool for delivering that effort. Indeed, the complexity and persistence of the challenges lagging regions face should not be underestimated. Low-growth regions have not made significant progress in improving their performance. They require comprehensive and long-term support that is linked to, for example, labour market reforms, skills needs and gaps in digitalisation.

This study found that the term *lagging regions* is often used as a catch-all in EU documentation as well as academic literature, thereby contributing to a level of ambiguity concerning the regions that are targeted and the challenges they face. Related to this, the Lagging Regions Initiative has lacked clear visibility – and has had a relatively limited influence – across EU policy developments. Correspondingly, this context has generated a level of inertia and inaction concerning the extent and nature of this EU-wide regional challenge, leading to a vacuum in specific and targeted EU policy responses.

There remains a strong top-down approach to EU policymaking, including in how support and investment are targeted and delivered. The challenges and needs of specific EU territories, especially those experiencing greater difficulties – the EU's lagging regions – risk being overlooked. Stronger 'space sensitivity', including in the EU's structural reforms agenda, has the potential of improving the targeting and delivery of EU support to the regions most in need.

The EU's transition agenda (i.e. energy, digital and industrial) creates specific challenges for lagging regions since successful transitions imply that certain capacities, such as skills and know-how, investment and governance, are in place. In regions where these are absent or in short supply – as is the general case for lagging regions –, successful transitions are unlikely to materialise. This further threatens the vulnerability and stability of these regions. Furthermore, the COVID-19 crisis is exacerbating this instability.

While EU measures and mechanisms are gearing up to support transitions, none have – as of yet – explicit elements that support the multifaceted needs of lagging regions. How they evolve over time should be carefully monitored to ensure that the specific needs of lagging regions are not overlooked.

## Conclusions and recommendations

This study identifies several key recommendations:

- 1) Apply a new typology of lagging regions that is supported by a rationale of better identifying and supporting regions that are falling behind.

- )] Launch a new initiative that targets low-growth regions which correspond to the (revised) definition of lagging the most, and which currently are not specifically targeted by an EU support programme.
- )] Improve the availability of and access to data at the regional level, to improve insights into the development needs and bottlenecks of lagging regions.
- )] Create a central repository of information for the Lagging Regions Initiative, linking together past and current activities as well as achievements.
- )] Carry out a comprehensive evaluation of the Lagging Regions Initiative to improve its visibility and future policy development.
- )] Place a stronger focus on quality of governance in the Cohesion Policy and European Semester to improve the targeting of support, especially to lagging regions.
- )] Ensure that structural reforms entail an improved place-based sensitivity by building on the recent inclusion of Annex D in the European Semester's Country Reports, thereby strengthening the European Semester's sensitivity to territorial challenges.
- )] Direct comprehensive and targeted support to lagging regions that experience multiple and complex challenges throughout their energy, digital and industrial transitions.
- )] Ensure that COVID-19 recovery measures target the EU's most vulnerable regions, to overcome the former's bias towards national-level data and focus, which, in turn, increases the risk of overlooking support for the EU's most vulnerable regions.

## Further information

This executive summary is available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: <https://bit.ly/34pGFPV>

More information on Policy Department research for REGI: <https://research4committees.blog/regi/>



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