

## Research for REGI Committee – The impact of the COVID-19 pandemic and the war in Ukraine on EU cohesion



The COVID-19 pandemic was a major shock, deeply impacting people, enterprises, public authorities, municipalities and regions. The war in Ukraine is exacerbating vulnerabilities for many places and societal groups already weakened by the pandemic.

These two external shocks have accelerated fragmentation between societal groups and between places. Many of the impacts highlight the risks of increasing inequalities.

The worst and most direct impacts have been avoided by swift policy actions where Cohesion Policy played a role.

### Cohesion Policy perspective

Cohesion Policy reacted promptly to the emergency of the pandemic. New measures to counteract socio-economic effects of the pandemic were extremely important. The three interconnected objectives of the new Coronavirus Response Investment Initiative (CRII)/Coronavirus Response Investment Initiative Plus (CRII+) measures and Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) were to provide liquidity, simplification and flexibility, enabling actions targeting needs that emerged during the pandemic. These have been particularly effective in supporting SMEs through traditional tools (i.e. grants and financial instruments).

The present document is the executive summary of the study on The impact of the COVID-19 pandemic and the war in Ukraine on EU cohesion. The full study, which is available in English can be downloaded at: <http://bit.ly/3ETymQj>

Policy Department for Structural and Cohesion Policies  
Directorate-General for Internal Policies

Author: Kai BÖHME, Marcela MÄDER FURTADO, Marita TOPTSIDOU, Sabine ZILLMER,  
Sebastian HANS (Spatial Foresight)

Dea HRELJA, Alessandro VALENZA, Arianna MORI (t33)  
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In the 2014-2020 period, European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund (CF) programmes responded to the emergency by shifting resources from supporting mainly long-term strategic investments such as infrastructure, R&D, energy efficiency and renewable energy operations, towards extra support to struggling SMEs, citizens and the healthcare sector.

The response to the pandemic included the Recovery and Resilience Facility (RRF) with its National Recovery and Resilience Plans (NRRPs). As investments planned in NRRPs largely coincide with Cohesion Policy strategic objectives and financial resources, there is a risk of funding competition. The high level of complementarity is not sufficiently addressed in coordination and collaboration between NRRPs and Cohesion Policy.

For the 2021-2027 period, programme authorities designing new strategies are adopting a 'back to normality' approach. The need to create new 'post-pandemic development models' has been disregarded. Current strategies are based on the same, pre-pandemic logic. However, going beyond the programmes and looking at CPR, 'territorial resilience' is embedded in ERDF and ESF+ specific objectives. Territorial resilience could also be boosted using territorially integrated strategies through a simplified and result-oriented framework thanks to Simplified Cost Option (SCO) and Financing Not Linked to Costs (FNLC).

## Cohesion perspective

The pandemic, Russia's war on Ukraine and a range of mega-trends affect Europe's pathway to cohesion. They risk further reducing cohesion in Europe and increasing disparities between places and people, as less developed regions are often more affected than more developed and affluent regions.

Gross value added (GVA) change in 2020 offers a first insight into impacts of the COVID-19 pandemic. The least decline in GVA has been around the Baltic Sea, in the Netherlands, Ireland, Luxembourg, Romania, Poland and some regions in Bulgaria. In many cases this seems to match less COVID-19 related restrictions.

Potential impacts of the war on Ukraine depend on the energy intensity of regional economies and their reliance on energy imports from Russia. The places most sensitive to this include regions in Finland, Estonia, Poland, Czechia, Slovakia, Hungary, Bulgaria, Slovenia and Germany.

The focus on energy does not give the full picture. Other regional sensitivities such as trade relations with Ukraine, Russia and Belarus, war refugees, the share of people at risk of poverty and the share of people working in highly affected sectors especially impact regions in Finland, the Baltic States, Poland, Romania, Bulgaria, Greece, the south of Italy, and the south of Spain.

The discussion of mega-trends points to the risk of increasing inequalities between places and people in Europe, i.e. less cohesion, and the risk of a poorer, more unstable and insecure future.

To cope with the increasing disparities and increase the capacity to react to unexpected changes, strengthen recovery and proceed with a green, digital and just transition, more resilience at all levels of governance is needed. Strengthening the ability to react to changes with the flexibility to adapt and navigate under uncertainty in all regions may reduce the risk that future external shocks, trends and societal transitions increase disparities.

## Recommendations

The pandemic and Russia's war on Ukraine are two major shocks. Clearly, there cannot be a blueprint for handling such external shocks, not at least as the needs vary considerably across Europe.

Still, it is time to look beyond how to respond to the crises. It is important to shift gear and start considering the crises as a chance to accelerate the transition to a more sustainable, digital and cohesive future.

Key lessons from this study include:

- **Shift funding from emergency to cohesion projects.** The focus on high quality projects with a clear cohesion perspective needs to be strengthened again as the need for emergency interventions decreases. Under the European semester, the European Parliament should encourage a long-term perspective, targeting structural changes when debating country reports and country specific recommendations.
- **Cohesion needs multi-level governance.** Multi-level governance and partnership principles are important cornerstones of Cohesion Policy and need to be ensured and re-emphasised where they have been weakened. In the context of the European semester, the European Parliament should address the role of the local and regional level in Cohesion Policy and in NRRPs.
- **Administrative capacity constraints risk reducing the quality of new programmes.** To ensure good quality strategic programmes and overcome recent capacity constraints for time and staff, administrative support and the possibility for re-programming should be considered. The European Parliament should advocate efforts for administrative support to programme authorities and simplification. Furthermore, it should advocate the possibility for a voluntary mid-term review and for re-programming in 2023, where programmes could not devote the envisaged efforts to programming for the 2021-27 period.
- **Strengthening regional resilience.** The increasing number of crises and external shocks underline the need to become more resilient. It is impossible to have blueprints which work for all parts of Europe and for all sorts of external shocks. The main lesson from this is the need to increase resilience at all levels of governance. In this case, resilience is the ability to adapt to changing situations, rather than bouncing back to a previous equilibrium. Cohesion Policy should be used to help local and regional authorities in Europe to increase their capacities to deal with unexpected shocks and become more resilient.
- **An ambitious long-term perspective.** Cohesion Policy programmes and beneficiaries need to engage with a long-term vision for their area to ensure the transition towards a green, digital and cohesive future which brings Europe closer to citizens. The European Parliament should advocate a European strategic framework (or long-term vision) underpinning Cohesion Policy post 2027, as well as place-based development visions at the level of programmes and territorial tools to bring Cohesion Policy closer to citizens.
- **2023 as a moment to reflect.** In 2023, insights on the interplay between NRRPs and Cohesion Policy programmes, the strategic orientation of policies post-COVID, and an early review of the long-term orientation of Cohesion Policy programmes should inform a broad reflection on possible re-orientation towards more strategic long-term needs. The European Parliament should ask the European Commission to address these points in country reports and country

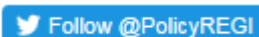
specific recommendations in 2023. Furthermore, it should launch an EU-wide assessment on the interplay between NRRPs and Cohesion Policy.

- **Strengthen cohesion as an underlying value.** The crises challenge cohesion in Europe and broaden the gaps between prosperous and lagging regions. Many of the mega-trends affecting local and regional development in Europe are expected to further accelerate these disparities. Cohesion Policy must offer a platform for regions which risk being left behind, to increase their capacities to develop desirable future perspectives for their areas and forward-pointing projects funded by Cohesion Policy.
- **What role for Cohesion Policy post 2027?** Cohesion Policy post 2027 can be radically different from today. It could become a new era for Cohesion Policy as the driver for transition and a policy integrator. Cohesion Policy could also become a narrowly focused funding scheme among an increasing number of purpose-built policies. Alternatively, Cohesion Policy might be phased out as it lacks agility and flexibility to adjust to changing circumstances. Now is the time to shape the debate about Cohesion Policy post 2027.

## 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: <http://bit.ly/3ETymQj>

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



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Research administrator: Frédéric GOUARDÈRES

Editorial assistant: Mariana VÁCLAVOVÁ

Contact: [Poldep-cohesion@ep.europa.eu](mailto:Poldep-cohesion@ep.europa.eu)

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