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Sixth report on economic, social and territorial cohesion: Investing in Europe's Future

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Executive Summary

This report comes out at the start of a new 7-year programming period for Cohesion Policy, when the situation in the EU is dramatically different from what it was at the start of the previous period in 2007. Then, the EU was still enjoying a sustained period of economic growth. Income levels were rising, as were employment rates and public investment, poverty and social exclusion were diminishing and regional disparities were shrinking. Nevertheless, despite the positive tendencies, disparities between regions of many different kinds remained wide.

The advent of the crisis changed all this. Since 2008, public debt has increased dramatically, income has declined for many people across the EU, employment rates have fallen in most countries and unemployment is higher than for over 20 years, while poverty and social exclusion have tended to become more widespread. At the same time, regional disparities in employment and unemployment rates have widened as have those in GDP per head in many countries while in others they have stopped narrowing. These developments mean that the Europe 2020 employment and poverty targets are now significantly further away than when they were first set and it will require a substantial effort over the next 6 years to achieve them in a context of significant budgetary constraints.

Chapter 1: In its first stage the crisis had a big impact on construction and manufacturing. In both, employment fell markedly, in construction as a result of the collapse of a real estate bubble in some Member States and a reduction in public investment and manufacturing because of a decline in global demand, especially for investment goods. More recently, world markets have expanded and exports have increased giving rise to some growth of manufacturing. This is particularly important for many of the Central and Eastern European Member States where manufacturing accounts for a large share of value-added.

The territorial impact of the crisis has been mixed. In most parts of the EU, metropolitan regions have been shown to be more prone to booms and busts, while overall rural regions have proved more resilient. In the EU-15, second-tier metropolitan regions performed average, while in the EU-13, they outperformed the other regions. Rural regions in the EU-15 had a smaller contraction of GDP than the other regions between 2008 and 2011 due to higher productivity growth. Also in the EU-13, higher productivity growth meant that he closed the growth gap with the other regions.

Not all developments, however, have been unfavourable. Despite the difficult economic context, the proportion of people with tertiary education has increased over recent years in most countries and early school leaving rates have declined. As a result, EU targets for both of these are likely to be reached by 2020 if not earlier. At the same time, R&D has not declined relative to GDP during the crisis and has even started to increase slightly in the past year or two, though not by enough to reach the 3% target set for 2020. Innovation, however, remains highly concentrated in spatial terms and shows no sign of spreading to lagging regions.

Investment in transport and digital infrastructure has reduced the deficiencies in these networks in many rural areas and less developed regions. Access to the internet using the next generation technology, however, creates new challenges for rural areas where this technology is almost non-existent. In addition, completing the trans-European Transport network will require at least two more decades of substantial investment particularly in most of the Central and Eastern Member States.

The onset of the crisis led to major reductions in the EU in trade and foreign direct investment, which are important sources of growth for the less developed Member States. Fortunately, exports of the EU-13 to other EU countries have shown significant recovery and now account for a larger share of their GDP than before the crisis, while FDI has also picked up.

Competitiveness remains low in most regions in Central and Eastern Member States, though capital city regions are typically the exceptions. These tend to be highly competitive, but for the most part they do not as yet generate any measurable spill-overs to benefit other regions. Most regions close to the capital in these countries, therefore, do not gain perceptibly from their proximity, while in many more developed Member States the regions neighbouring the capital also tend to have high levels of competitiveness. Indeed, in some Member States, such as the Netherlands, Germany and Italy, other regions with an important second-tier city have a higher level of competitiveness than the capital city region.

Chapter 2: The crisis has wiped out half of the employment gains made between 2000 and the onset of the recession, particularly in the southern Member States. As a result, in transition and less developed regions, employment rates are around 10 percentage points below the national target as compared to only 3 percentage points below in the more developed regions. Increases in unemployment have also been larger in these regions, averaging 5 percentage points between 2008 and 2013 as against 3 percentage points in more developed regions.

Although 2013 was the first year in which the average rate of unemployment in the EU was the same for women as for men, big disparities remain in some parts, unemployment being much higher for women than for men in many southern regions. Employment rates for women remain lower than those of men in all EU regions. While the gap is relatively small in a number of Swedish and Finnish regions, it is more than 20 percentage points in Italy, Greece, and several regions in Romania, the Czech Republic and Poland. On the educational front, however, in nine out of ten regions more women than men aged 30-34 have a tertiary-level qualification.

Higher risk of poverty and social exclusion is another legacy of the economic crisis. There are now around 8 million people at risk of poverty in the EU, the increase being particularly pronounced in Greece, Spain, Italy and the UK. A key issue is the variation within countries. The risk of poverty tends to be much lower in cities than in the rest of the country in less developed member States, while in cities in the more developed Member States, the reverse is the case. Accordingly, in the latter, to meet the national Europe 2020 poverty targets requires a major reduction in the number of people at risk of poverty or exclusion in urban centres, while in the less developed countries the main challenge is to reduce the numbers at risk in more rural areas.

The large disparities in employment, income levels and social well-being are major factors underlying population movement within the EU. In Central and Eastern Member States, there has been a tendency over the past 20 years for people to move from rural areas to urban ones, especially to the capital city, as well as to other parts of the EU. The combination of a natural decline in population and outward migration has led to a significant reduction of people living in rural regions in the EU-13 over the past decade.

In the EU-15, on the other hand, the population has risen on average in rural regions because of net inward migration more than offsetting a natural reduction in population.

In the EU-15, over the past decade the contribution of net inward migration to population growth was three times larger than that of the natural increase. By contrast, in the EU-13, net outward migration contributed twice as much to population decline as the natural reduction.

Wide variations remain across the EU in life expectancy and mortality rates. Life expectancy differs by more than 9 years between the 10 regions where it is highest and the 10 where it is lowest. Equally, infant mortality and deaths from road accidents in relation to population differ by a factor of four between the 10 best and worst performing regions.

Chapter 3: The crisis has had mixed effects on the environment. The reduction in economic activity and income has made it easier to reduce greenhouse gas emissions; though energy efficiency has not increased greatly so that this reduction may well be reversed when demand picks up. The crisis has also reduced the cost of allowances for greenhouse gas emissions in the European Trading Scheme, so depressing the economic incentives to invest in energy efficiency and renewable energy and delaying the transition to a low-carbon economy. The European Commission has postponed the auction of some allowances in response to these low prices.

Some progress has been made across the EU in improving the treatment of urban wastewater and solid waste. More towns and cities now meet the quality standards set in the EU Directive on urban wastewater treatment and more solid waste is recycled, or incinerated with energy recovery, and less is dumped in landfills. In both cases, however, more needs to be done and substantial investment is still required particularly in many of the less developed Member States and regions.

The quality of the ‘services’ provided by the eco-system differs substantially across the EU. The services concerned can fulfil important functions such as cleaning air and water, retaining water to reduce flood risks and removing carbon. The recent floods in many parts of the EU and the low air quality in many cities underline the need for them. The advantage of investing in such services is that it can often be cost-efficient while helping to limit the loss of bio-diversity.

The urban dimension of sustainable growth is one of many contrasts. On the one hand, air quality is poor in many cities, made worse by traffic congestion, and cities are more vulnerable to heat waves, due to the ‘heat island’ effect, as well as to flooding because of their proximity, in many cases, to rivers and the sea and the large expanse of sealed surfaces.

On the other hand, cities offer major advantages in terms of eco-efficiency, since the close proximity of different locations reduces the need to travel long distances. Public transport is also more available in cities, offering a more energy-efficient means of travel, and people living in cities on average use less energy to heat their housing. Equally, cities use land much more efficiently than others areas where population density is much lower and built-up land per inhabitant is much higher

Chapter 4: In most Member States, the government budget has been in significant deficit over the crisis period and public debt levels have risen dramatically, in some cases well above 100% of GDP. The deterioration in public finances has led to the widespread implementation of fiscal consolidation measures and many governments have cut back public investment markedly. On average, public investment in the EU declined by 20% in real terms between 2008 and 2013, in Greece, Spain and Ireland, by over 60% and in the EU12 countries, where Cohesion Policy funding is particularly important, by 32%. This could well depress growth rates over the medium-term.

As a result of the cut-backs in national expenditure, there is increased reliance on Cohesion Policy to finance growth-enhancing investment. In 2010-2012, Cohesion Policy funding was equivalent to 21% of public investment in the EU as a whole, to 57% in the Cohesion countries taken together and to over 75% in Slovakia, Hungary, Bulgaria and Lithuania. Without this funding, public investment in the less developed Member States would have declined even further.

Local and regional governments in the EU are responsible for almost two thirds of all public investment and, accordingly, the reductions which have occurred have had a big impact on them. The political autonomy (or self-rule) of regions has tended to grow over the past few decades, with substantial increases in many Member States. In Italy, in particular, the degree of self-rule in regions is now higher than in the Federal states of Germany, Austria and Belgium.

Chapter 5: The EU has given increasing attention to the importance of governance and the quality of public institutions over the past few years, including in relation to Cohesion Policy programmes. For example, an anti-corruption report has been adopted in 2014 and many of the country-specific recommendations made as part of the European Semester concern issues of administrative capacity. Initiatives, such as e-Government and e-Procurement, can help both to increase efficiency and reduce the opportunities for abuse of power. In addition the development of national anti-corruption and anti-fraud strategies is likely to strengthen administrative capacity and lead to funds being used more effectively.

As regards Cohesion Policy, improving institutional capacity and public administration is one of the 11 key thematic objectives for the period 2014-2020. One of the reasons for this is the observed link between low levels of government efficiency and the absorption rate of Cohesion Policy funding for the 2007-2013 period, which is so low in some cases that there is a serious risk that Member States will lose significant amounts of the funds available to them.

While countries in the North of Europe score well in surveys of governance and ease of doing business, there are still too many Member States where the standard of public authorities is perceived to be low and significant numbers of people report paying bribes. New research has revealed that the ease of doing business and the quality of institutions also vary in many cases within countries, which implies that more targeted interventions may be needed to bring the situation in lagging regions up to standard. Research has also indicated that governance problems can act as a brake on social and economic development and limit the impact of Cohesion Policy investment.

Recognising the key role of regional and local authorities in public investment, the OECD has recently adopted principles on the effective management of public investment which apply across all levels of government.

Chapter 6: Cohesion Policy was born out of concerns that obstacles to economic development, such as a lack of innovation, labour force skills, infrastructure or institutional quality, will permanently depress growth and productivity and lead to lower standards of living. Over the years, the financial support under the policy, which has consistently focused on less developed regions, has shifted away from investment in hard infrastructure towards business support and innovation, employment and social inclusion to overcome these obstacles.

The nature of Cohesion Policy and its objectives have also evolved. The geographical coverage has been simplified, with all regions being eligible for a measure of support, while in addition to its focus on reducing economic disparities, the policy has become more closely aligned with the overall strategy of the EU. Accordingly, in the 1990s, funding was extended to environmental and trans-European transport infrastructure and in the 2000s, Cohesion Policy was directed towards the pursuit of the Lisbon and Gothenburg strategies for growth and sustainable development. In the new period, Cohesion Policy is an integral part of the Europe 2020 strategy with a strong focus on employment, innovation, sustainability and reducing poverty and social exclusion.

Successive enlargements of the EU have changed the challenges which Cohesion Policy has to confront and increased the difficulty of tackling them. Not only have they led to a much greater number of regions with low levels of development but they have also increased the territorial diversity of the EU.

With the introduction in the Lisbon Treaty of territorial cohesion as an explicit objective of Cohesion Policy, a stronger emphasis has been given to access to services, functional geography, territorial analysis and sustainability. This shift is mirrored in the increased focus on sustainable growth in Europe 2020 and in the recognition of the importance of moving beyond GDP when assessing territorial development. The debate on how to measure progress and the role of Cohesion Policy in this respect is still ongoing.

Chapter 7: Cohesion Policy in the 2007-2013 period made a substantial contribution to growth and jobs. It is estimated to have increased GDP by 2.1% a year on average in Latvia, 1.8% a year in Lithuania and 1.7% a year in Poland in relation to what it would have been without the investment it has funded. It is also estimated to have increased the level of employment, by 1% a year in Poland, 0.6% in Hungary, and 0.4% in Slovakia and Lithuania. The estimates of the longer-term effects are larger because of the impact on the development potential of economies. In both Lithuania and Poland, GDP in 2020 is estimated to be over 4% above what it would be without the investment concerned and in Latvia, 5% higher.

Over the same period, Cohesion Policy has been important in sustaining public expenditure in vital areas, such as R&D, support for SMEs, sustainable energy, human resource development and social inclusion. In some Member States, it also helped further national reform efforts, especially as regards education systems, the labour market and public administration.

There is clear evidence that the policy is producing tangible results in many areas. Support had been provided to over 60 000 RTD projects by the end of 2012, over 21 500 co-operation ventures between enterprises and research centres, and almost 80 000 business start-ups. In addition, the funds had provided over 5 million more people with access to broadband, 3.3 million with an improved supply of drinking water and 5.5 million with main drainage and a connection to waste water treatment facilities.

Between 2007 and 2012, the policy has supported up to 68 million individual participations in labour market programmes[1], 35 million of them involving women, 21 million young people, 22 million unemployed and nearly 27 million of those with low levels of education (compulsory schooling or below). The ESF helped 5.7 million people find employment and almost 8.6 million to obtain qualifications, while Member States reported that it had contributed to over 400,000 business start-ups or people becoming self-employed.

Major results are still expected from the 2007-2013 programmes over the remaining months up to the end of 2015. The payments data however underline the need to step up the completion of these programmes. Although there is an inevitable delay between expenditure on the ground and Commission payments being made, there is evidence of serious delays in a number of countries in projects being selected for support and being carried out. This is especially the case in areas such as RTDI, rail, ICT and broadband and investment in both renewable energy and energy saving, where authorities have limited experience or projects are relatively complex.

Chapter 8: In 2014-20, a third of the EU Budget will be invested under Cohesion Policy to help address disparities between regions while at the same time contributing to the achievement of the Europe 2020 goals. The two objectives are fully compatible with each other. Indeed, the pursuit of the Europe 2020 goals can be seen as a means of furthering regional development aims and of strengthening the various elements which determine the growth potential of regions.

The new Cohesion Policy is not only fully aligned with the Europe 2020 strategy and its headline targets but it is also linked to the European semester and the EU economic governance process. This will ensure that the effectiveness of investment is not undermined by unsound economic and fiscal policies. Member States and regions are also required to put in place sound regulatory, administrative and institutional frameworks to maximise the impact of investment. Together with a concentration of resources on a few key priorities and a stronger focus on performance and results, it will increase value for money and the contribution of Cohesion Policy to growth and job creation.

[1] Reporting counts all instances of participation and many people may have participated several times. Participations can range from a short interview, to counselling, training or work experience.