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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

on the 8th Cohesion Report: Cohesion in Europe towards 2050

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1. INTRODUCTION

Based on the analysis in the 8th Cohesion Report, this Communication presents the main changes in territorial disparities over the past decade and how policies have affected these disparities. It highlights the potential of the green and digital transitions as new drivers of EU growth, but argues that without appropriate policy action new economic, social and territorial disparities may appear. Finally, it launches a reflection on how cohesion policy should evolve to respond to these challenges and in particular how to ensure that place-based, multilevel and partnership led approaches continue to improve cohesion, while building on synergies and mainstreaming cohesion objectives into other policies and instruments.

2. COHESION IN THE EUROPEAN UNION HAS IMPROVED, BUT GAPS REMAIN

The Cohesion Report assesses the long-term evolution of regional disparities, but also briefly addresses the dramatic short-term effects of the COVID-19 pandemic. This has had an asymmetric impact on EU regions, reflecting different regional healthcare capacities, restrictions and economic structures. COVID-19 has already increased EU mortality by 13% (Chapter 1¹), but the impact so far is higher in less developed regions where mortality increased by 17%². The pandemic led to the largest recession since 1945, affecting especially sectors that depend on personal interaction, such as tourism, and drastically altered our jobs, schools and social interactions, while travel restrictions had a disproportionate impact on border areas.

Convergence has been driven by high growth in less developed regions, but their low cost-advantages and returns on infrastructure investment may shrink over time.

Since 2001, less developed eastern EU regions have been catching up with the rest of the EU, leading to a substantial reduction of the GDP per capita gap (Map 1). Their high growth rates have been fuelled by structural transformation, notably a shift of employment out of agriculture and into higher value added sectors. Some of these

¹ The chapters referred to in this Communication are those of the accompanying Staff Working Document.

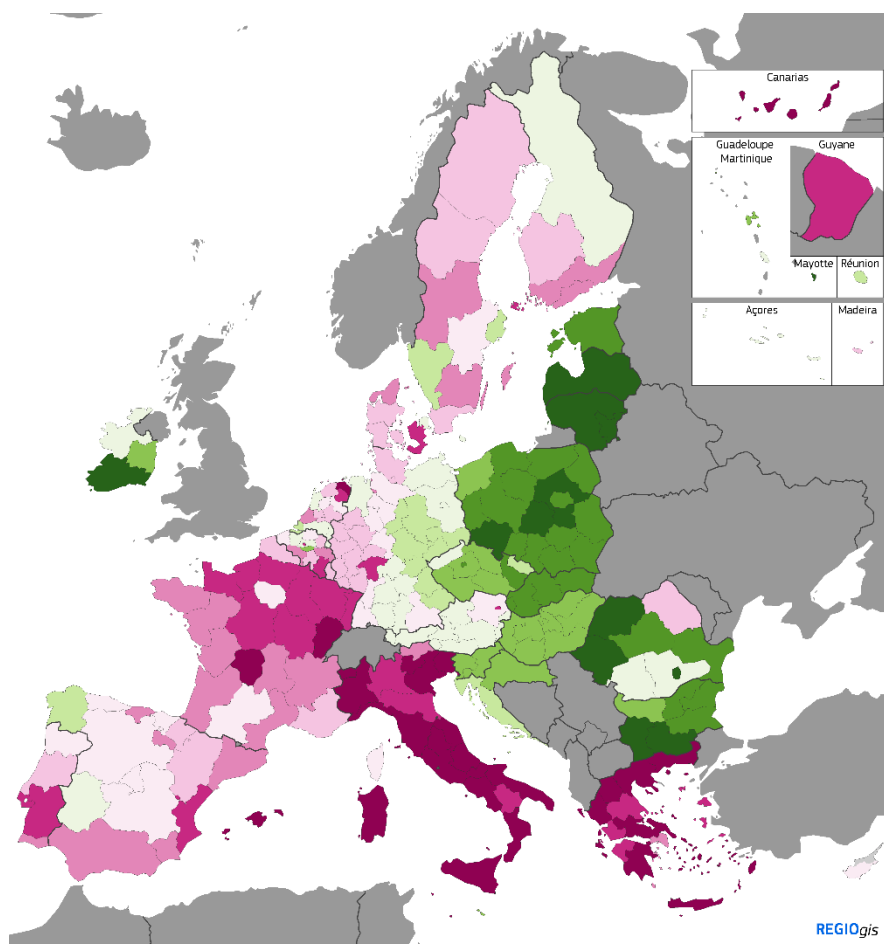
² Less developed regions have a GDP level at less than 75% of the EU average, transition regions between 75% and 100%, and more developed regions more than 100%.

regions have relied on infrastructure investment and low costs to promote growth. However, the returns on infrastructure investment will decline and low cost advantages will shrink if real wages grow faster than productivity, especially in the tradeable sectors. To avoid a development trap in the future, less developed regions will need to boost education and training, increase investments in research and innovation, and improve the quality of their institutions.

Several middle-income and less developed regions, especially in the southern EU, have suffered from economic stagnation or decline (Map 1), suggesting they are in a development trap³ (Map 2). Many were hit by the economic and financial crisis in 2008 and have struggled to recover since. Long-term growth will require reforms of the public sector, an upskilled labour force and a stronger capacity to innovate.

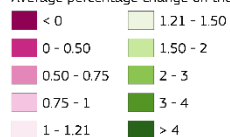
³ A region is considered trapped if its growth has slowed down and is lower than EU and/or national growth. Map 2 shows the regions which were mostly or frequently trapped between 2000 and 2019. Regions in grey were mostly not trapped.

Map 1



Growth of GDP/head, 2001-2019

Average percentage change on the preceding year

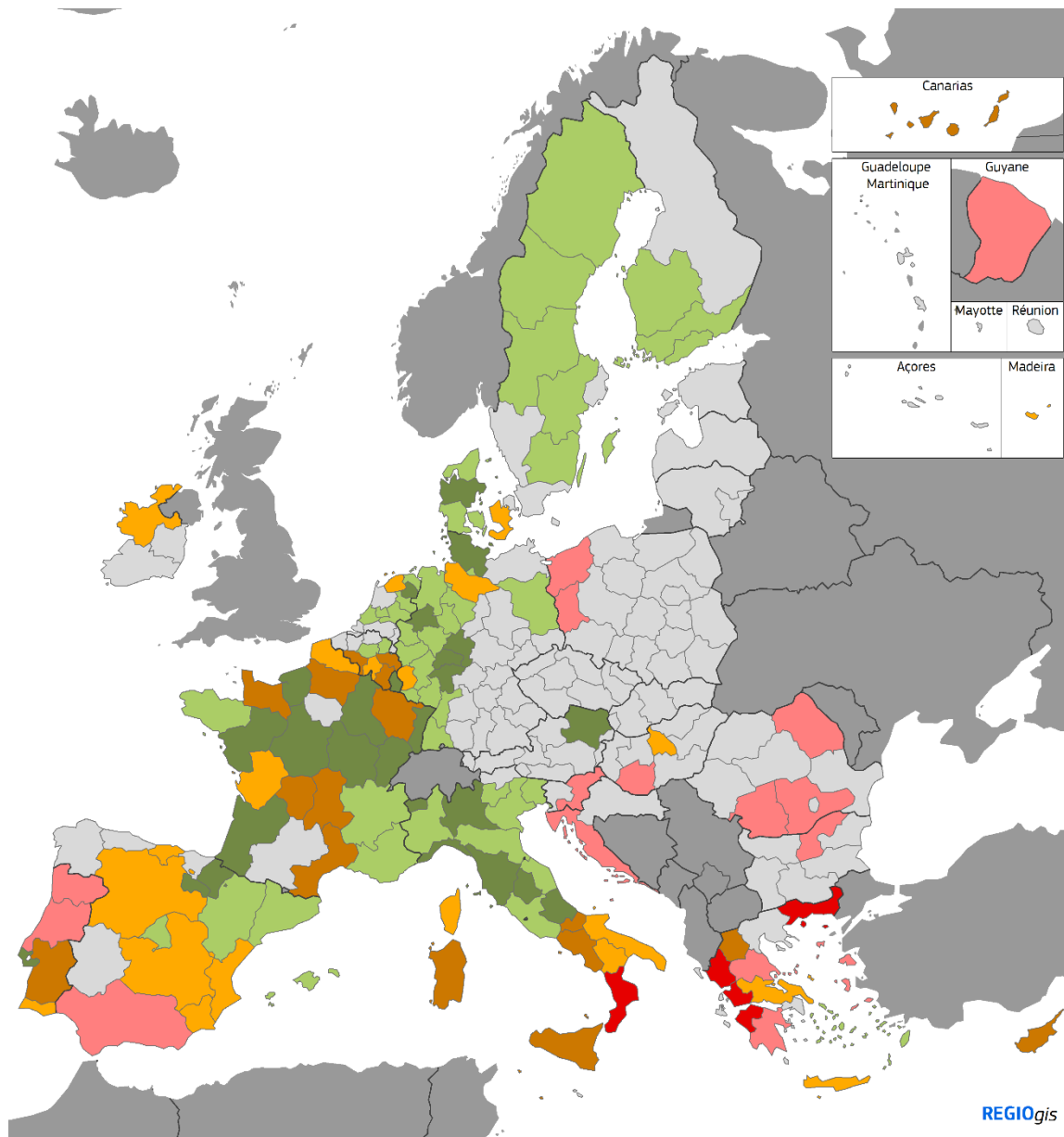


EU-27= 1.21
Source: DG REGIO based on JRC and Eurostat data

0 500 km

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Map 2



Number of years in a development trap during 2001-2019 by level of GDP per head in 2000

GDP/head (index EU-27=100) vs. years

< 75%, 10-14 years 75 - 100%, 10-14 years > 100%, 10-14 years

< 75%, 15-19 years 75 - 100%, 15-19 years > 100%, 15-19 years

less than 10 years in a development trap

Six capital regions have been merged with the surrounding regions to limit distortions in the GDP/head values.

Source: DG REGIO calculations based on JRC and Eurostat data

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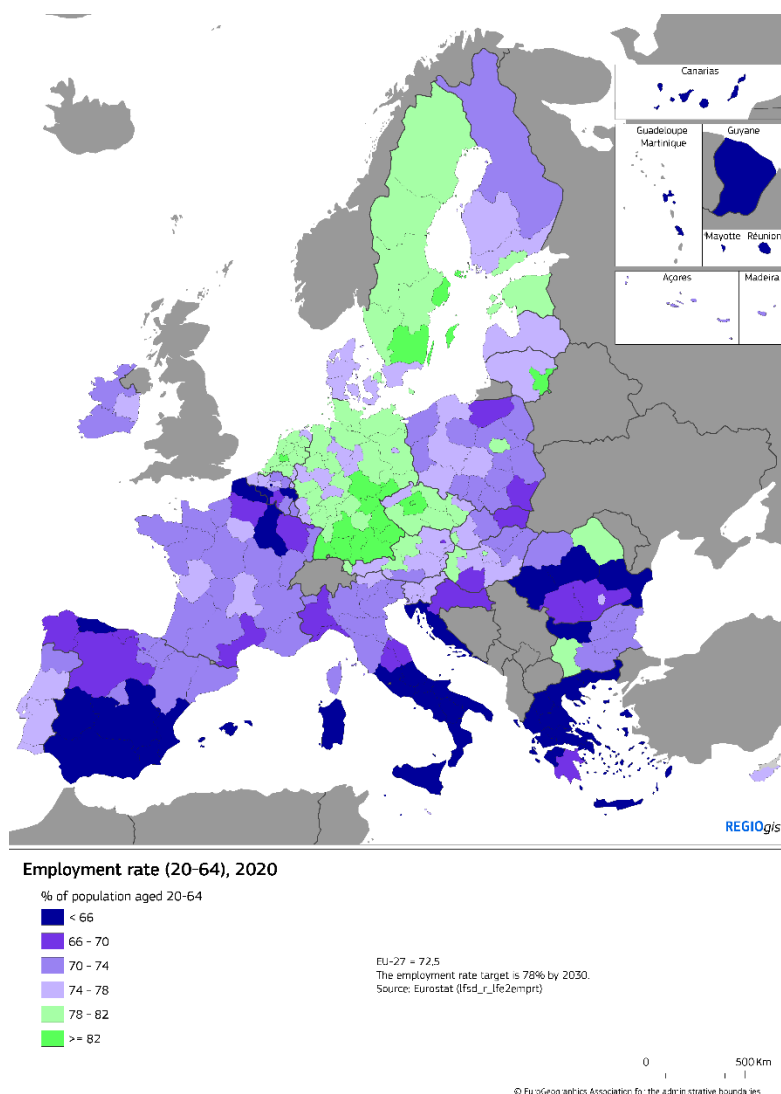
Capital metropolitan regions perform better than other regions. Between 2001 and 2019, real GDP per head in metropolitan (metro) regions grew faster than in other EU regions (Chapter 2). In the southern and the eastern EU, both capital and other metro regions had higher GDP and employment growth per capita, leading to a growing concentration of economic activity and employment in these regions. In the north-

western EU, however, metro regions and other regions grew at similar speeds, while only the capital regions grew slightly faster.

Significant progress has been made in improving employment and social inclusion⁴, but important structural challenges remain.

Employment has been growing, but regional disparities remain larger than before 2008 (Chapter 5). The economic crisis in 2008 led to a significant spike in regional disparities in both employment and unemployment rates. At the EU level, the employment rate has fully recovered from the crisis and reached its highest value in 2019 at 73% of those aged 20-64. Regional disparities have fallen since 2008, but remain wider than before the economic crisis. Employment rates in less developed regions remain far below those in more developed regions (Map 3).

Map 3



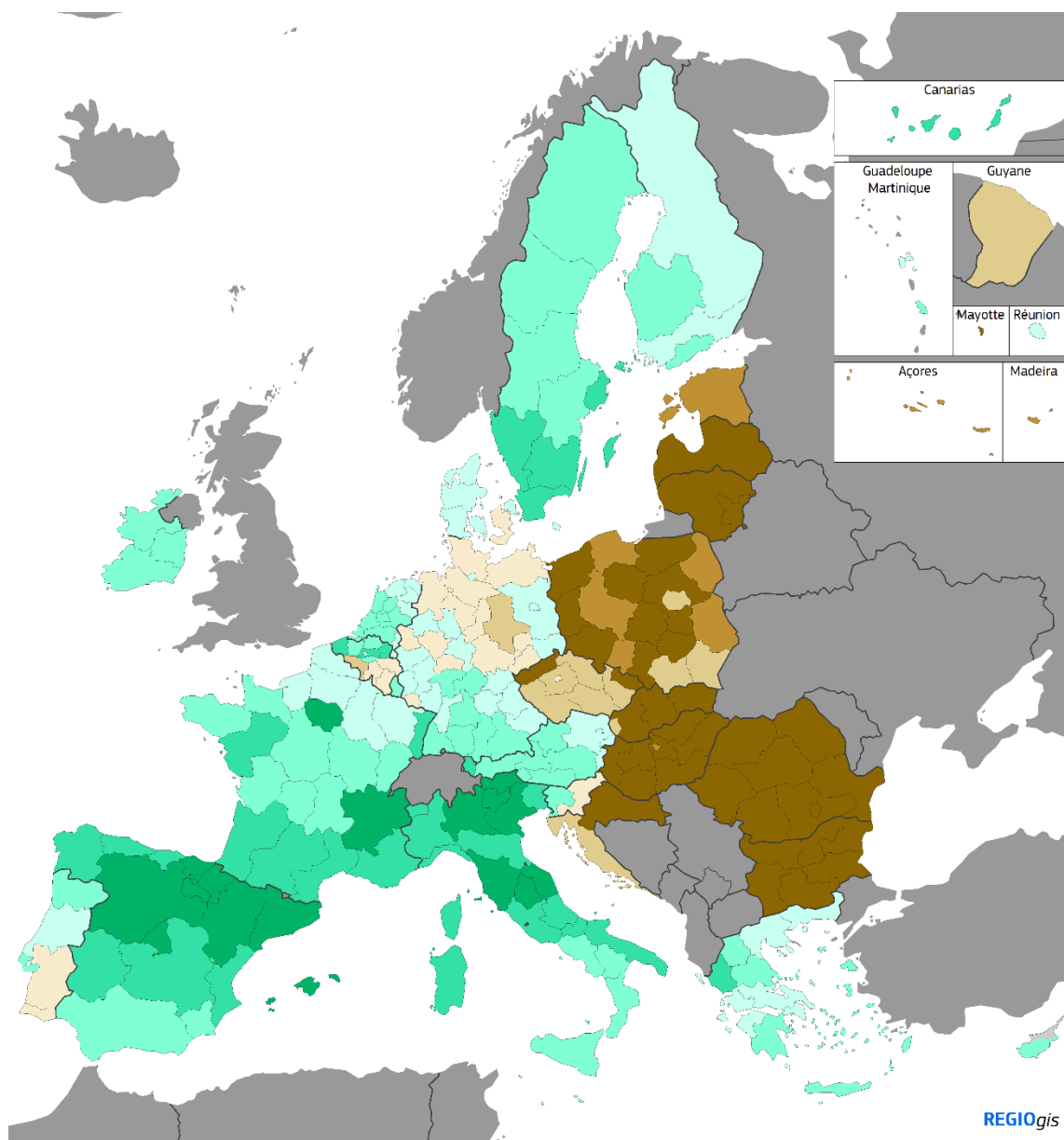
⁴ See the regional dimension of the social scoreboard <https://ec.europa.eu/eurostat/web/european-pillar-of-social-rights/indicators/data-by-region>

Reducing regional employment disparities requires more employment growth and a reduction of the gender gap. In less developed regions, the gender employment gap is almost twice that in more developed regions (17 vs 9 percentage points). Overall, women in less developed regions are more likely to be disadvantaged compared to men in the same region and less likely to have a high level of achievement compared to women in other regions.

The number of people at risk of poverty and social exclusion has fallen by 17 million between 2012 and 2019, mostly due to the decline of the number of people in severe material deprivation in eastern Member States. Reaching the EU 2030 target of reducing the number of people at risk of poverty or social exclusion by at least 15 million requires maintaining the current rate of poverty reduction over the next decade. The pandemic, however, increased the number of people at risk of poverty and social exclusion by 5 million in 2020.

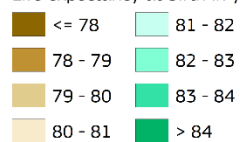
Health disparities have been shrinking. Life expectancy has increased faster in less developed regions over the past decade than other regions. Nevertheless, life expectancy is still low compared to the EU average in many eastern regions (Map 4). The pandemic reduced life expectancy in 2020 in almost all Member States, but this is likely to be temporary (Chapter 1). The pandemic also highlighted the regional differences in healthcare capacity.

Map 4



Life expectancy, 2019

Life expectancy at birth in years



EU-27 = 81.3

Source: Eurostat (demo_r_mlfexp)

0 500 km

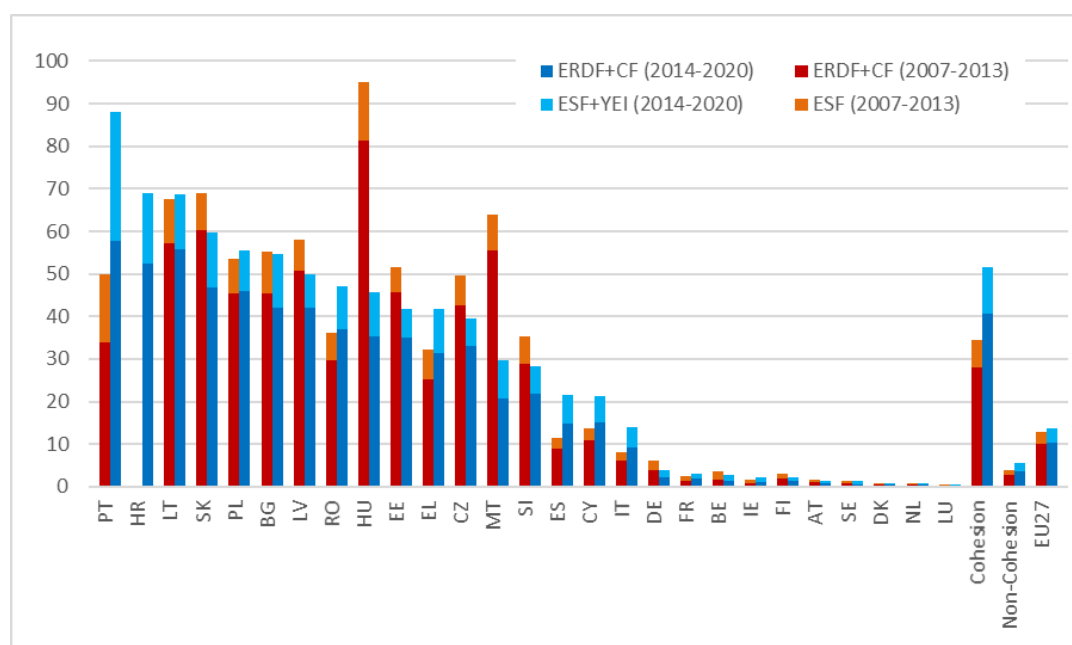
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Cohesion policy has helped to reduce disparities.

Economic modelling indicates that in 2023, GDP per head will be 2.6% higher in less developed regions due to support from cohesion policy in 2014-2020. This model also shows that the gap between GDP per head in regions representing top and bottom deciles will fall by 3.5% (Chapter 9).

Following the contraction of national public investments due to the economic and financial crisis, **cohesion policy became a more important source of investment** (Chapter 8). In cohesion countries, cohesion funding grew from the equivalent of 34% to 52% of total public investment from the 2007-2013 programming period to the 2014-2020 programming period (Figure 1). Without cohesion policy, the reduction in public investment would have been even bigger in these countries.

Figure 1: Cohesion policy allocations relative to public investment, 2007-2013 and 2014-2020



Cohesion policy responded quickly **to the COVID-19 crisis by mobilising additional funding, making spending on the crisis response eligible and allowing higher co-financing rates.** This helped Member States and regions respond to the crisis. However, cohesion policy should now return to its core mission of reducing regional disparities and promoting long-term regional development.

3. DRIVERS OF REGIONAL GROWTH TEND TO BOOST COHESION

Investments in infrastructure, skills, innovation and governance have continued to drive convergence in recent years. Nonetheless, gaps remain and many drivers of growth remain concentrated in more developed regions and urban areas. Recent research shows that the effectiveness of these investments depend on an appropriate region-specific investment mix and a good institutional and macro-economic framework.

In the 2014-2020 programming period, almost half of cohesion policy investment supported infrastructure, largely due to needs in the eastern EU. This has helped to reduce the road transport performance gap in the eastern EU and **to close it in the southern EU** (Chapter 4). This investment has also improved rail performance in the southern and the eastern EU. Nevertheless, more investment is still needed in the eastern EU, in particular to support the shift to a carbon neutral economy.

Basic broadband access is almost universal in the EU, but very-high-speed connections are only available to two out of three city residents and one out of six rural residents (Chapter 4). Transport and IT infrastructure investments alone do not automatically lead to higher growth rates. They need to be accompanied by policies that create a favourable environment for companies to grow and help workers to access new employment opportunities in all regions.

Sufficient investment in environmental protection, clean energy and the provision of associated services is essential to ensure long-term sustainability, competitiveness and quality of life. **Air and water pollution have been reduced, but still remain too high in many less developed regions.** The air pollution caused by fine particulate matter is high in many eastern regions. Within the EU it leads to an estimated 400,000 premature deaths a year. Ozone concentrations remain too high in many southern regions. Waste water treatment has improved throughout the EU, but more investments are still needed in many less developed and transition regions to protect and improve water quality (Chapter 3).

Skills endowments are unevenly distributed and concentrated in more developed regions and especially capital regions. Less developed regions lag far behind transition and more developed regions in terms of tertiary education, life-long learning and digital skills. Despite improvements at the EU level, gaps between regions have remained wide. When many workers lack a secondary education, closing the productivity gap becomes harder. Educational attainment and skills also display a large urban-rural divide. City residents are more likely to have a university degree, to participate in training and to have good digital skills than rural residents.

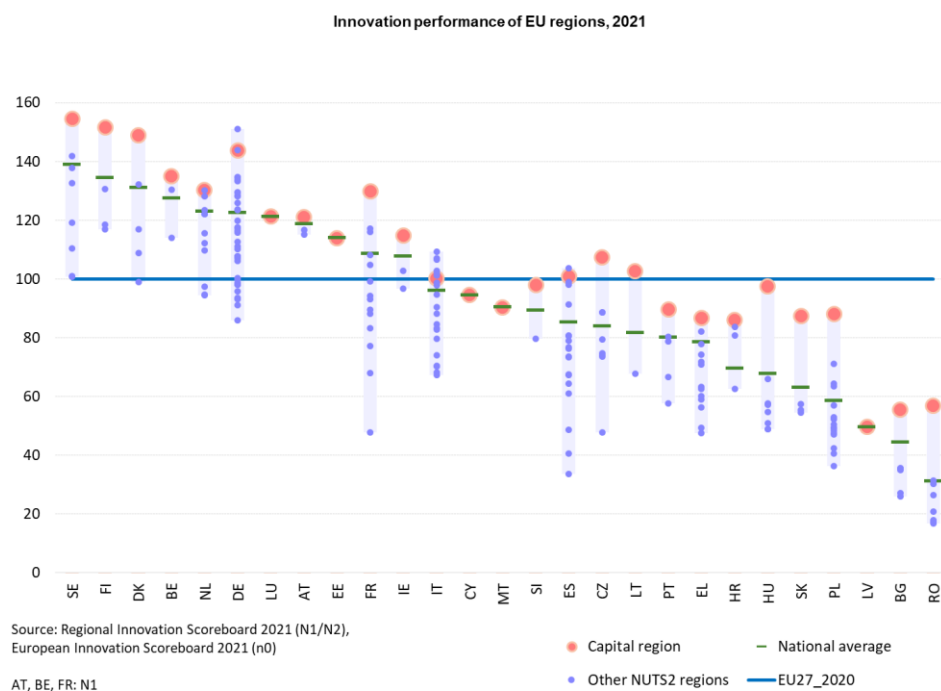
Entrepreneurship is critical for growth, but tends to be concentrated in larger cities. New firms are particularly important to diversify economic activities and create jobs in low growth regions. The Recommendation on Effective Active Support to Employment (EASE)⁵ following the COVID-19 crisis highlights how upskilling, reskilling and entrepreneurial support can promote inclusive job-to-job transitions taking into account the regional context.

Innovation is the key determinant of long-term regional economic growth, but **the regional innovation divide in Europe has grown**. While certain Member States have made significant progress in catching up, many regions, including in more developed

⁵ Commission Recommendation on an effective active support to employment following the COVID-19 crisis (EASE) – C(2021) 1372, 4.3.2021.

Member States, lag behind (Figure 2). This is due not only to a lack of investment in R&D, but also weaknesses in regional innovation ecosystems. Better innovation diffusion at national and regional level can help less developed and transition regions to catch up. Smart specialisation strategies, which were introduced in cohesion policy for 2014-2020, can help to address this divide, but will need to focus more on regional potential.

Figure 2: The regional innovation divide in Europe 2021

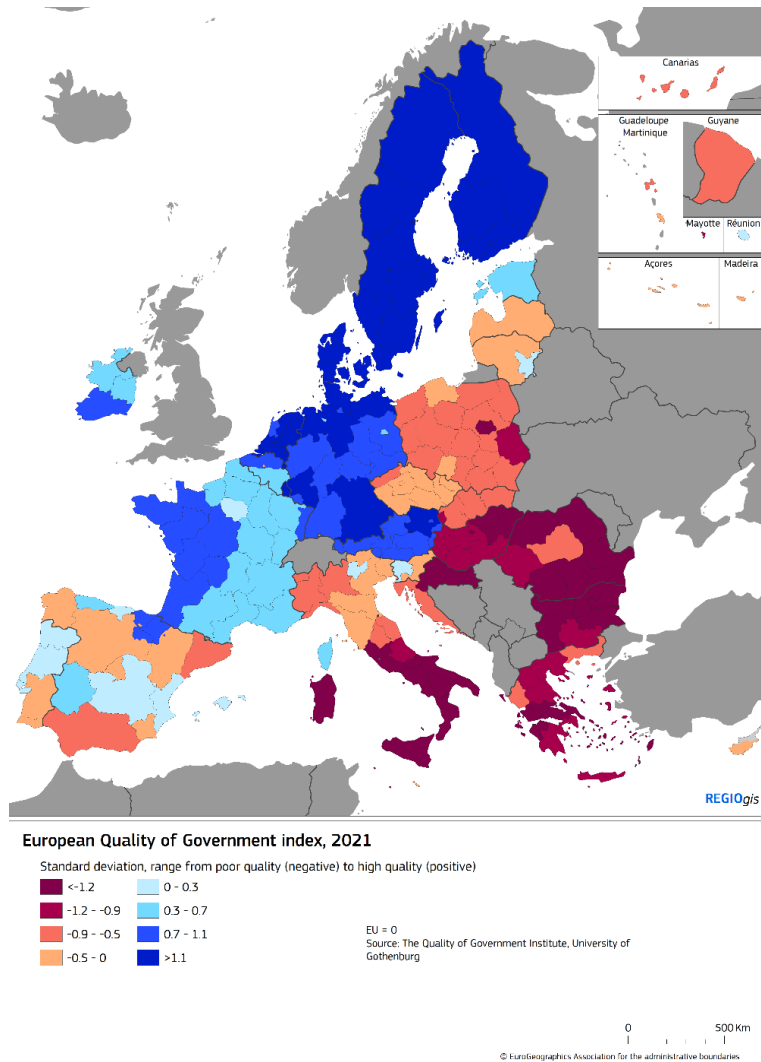


This innovation divide is exacerbated by **weak innovation and limited human capital spill-overs from international trade linkages and value chains** in many less developed and transition regions. In spite of often significant foreign direct investment (FDI) and exports, many regions fail to capture the benefits for local firms and workers. Poor take-up of digital technologies, managerial practices and industry 4.0 technologies in business and the public sector means that many regions are unprepared to take advantage of new opportunities and are vulnerable to potential reshoring as value chains evolve.

Governance in the EU is mostly improving, but gaps remain between and within Member States (Map 5⁶) (Chapter 7). Improving institutions can contribute to more effective investment, higher levels of innovation and entrepreneurship, which are critical for long-term economic growth. All Member States have improved their business environment, but significant variations remain. The effectiveness of the justice system also differs between Member States and in a few Member States the rule of law has deteriorated over time.

⁶ The index is based on a regional survey that measures the quality of local police, education and health care and corruption, nepotism and discrimination in the provision of these services.

Map 5



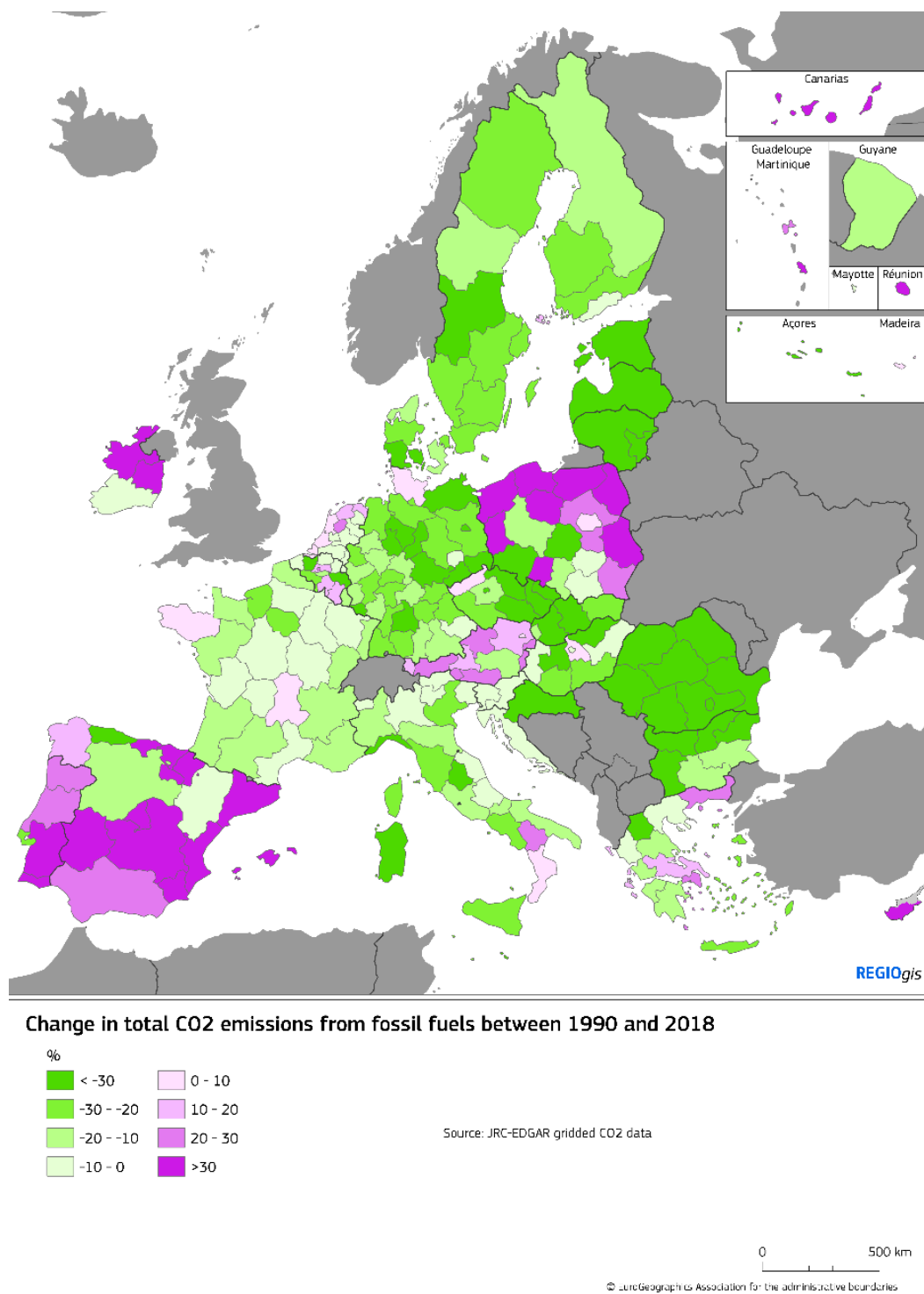
The role and capacity of sub-national governments in economic development remains uneven, although they carry out most public investment, notably in relation to the energy transition and adaptation to climate change (Chapter 8). Place-based policies are particularly important in countries with significant internal economic disparities. Local and regional autonomy has grown slowly in cohesion countries during the past decades, but remains lower than in the rest of the EU. Since managing cohesion policy programmes is challenging for regions with little autonomy and less experience in carrying out public investments, cohesion policy has helped strengthen administrative capacity and the implementation of regional development strategies, notably through territorial instruments and cooperation within functional areas.

4. NEW OPPORTUNITIES FOR GROWTH, BUT RISKS OF NEW DISPARITIES

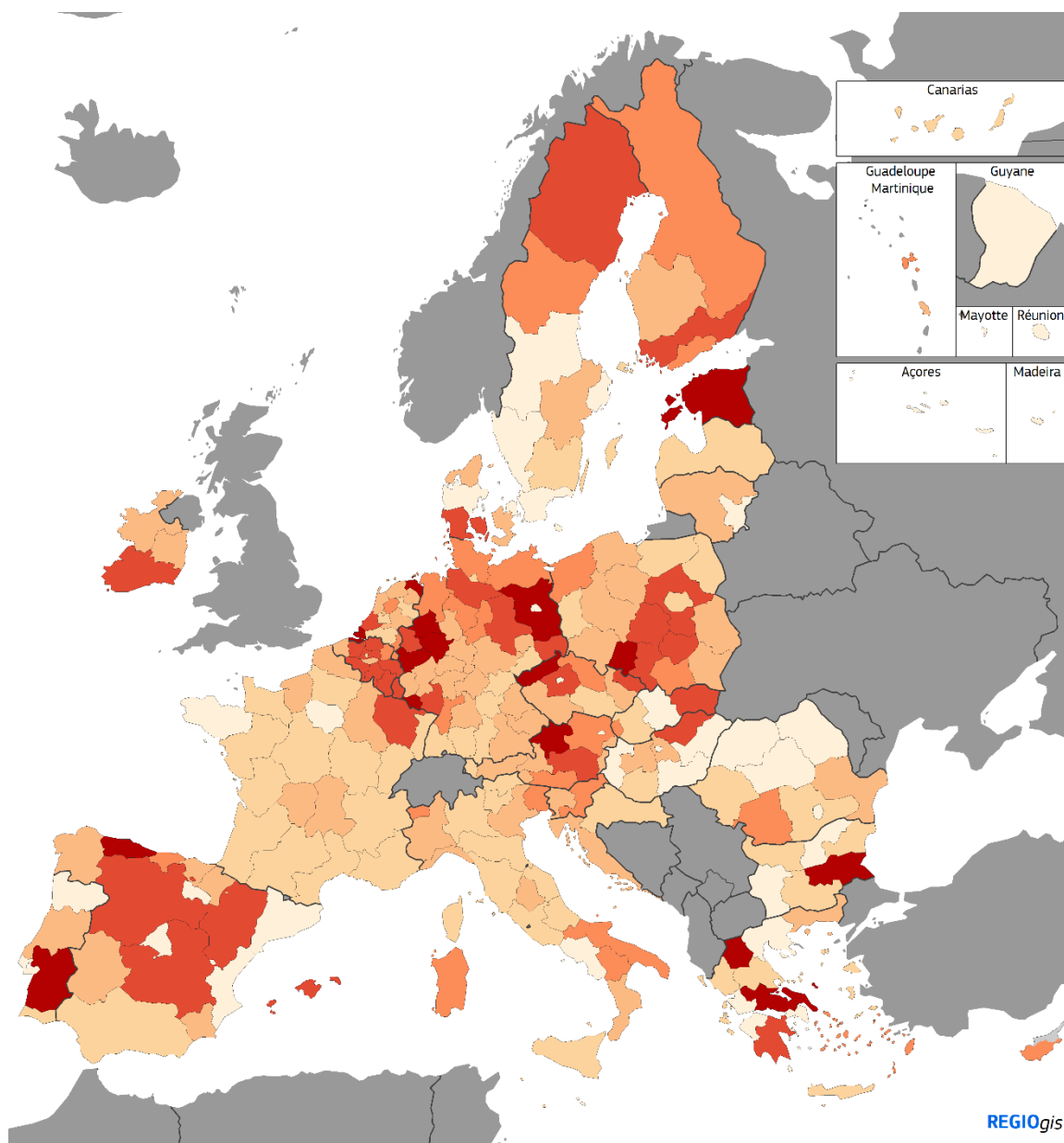
In the next 30 years, the EU's growth will be driven by the green and digital transitions. These will bring new opportunities, but will require significant structural changes that are likely to create new regional disparities. If ignored, the demographic transition may undermine both cohesion and growth. The way these transitions are managed will determine whether all regions and citizens, wherever they live, will be able to benefit from these transitions. Without a clear territorial vision of how these processes will be managed and an ambitious implementation of the European Pillar of Social Rights, a growing number of people may feel that their voices are not heard and the impact on their communities are not considered, which may fuel discontent with democracy. To prepare Europe to deal with these challenges, it is essential to promote job-to-job transitions to green and digital sectors and bridging related skills shortages, as proposed in the EASE Recommendation.

The green transition and especially the goals of a carbon neutral and circular economy will transform our economies. It will boost employment in sectors such as renewable energy, recycling, design, renovation and ecosystem services, but may adversely affect sectors that need to reduce their emissions and the regions in which they are located (Maps 6 and 7). Natural capital in rural regions may boost jobs in managing ecosystem services and renewable energy. The social impact of the EU goal of being climate-neutral by 2050 will thus differ from one region to another and may be higher in those with high poverty rates. This will require the support of policy instruments such as the Just Transition Fund.

Map 6



Map 7



CO2 emissions from fossil fuels per head, 2018

tCO2 per head

- <= 4.5
- 4.5 - 6.0
- 6.0 - 8.0
- 8.0 - 10.0
- 10.0 - 15.0
- > 15.0

EU-27 = 7.2
Source: Crippa e.a. (2019)

0 500 km

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The digital transition is moving forward at different speeds across Europe. Its completion will require expanding very-high-speed internet access, boosting digital skills and investing in IT equipment. This will benefit rural areas because their internet connections tend to be slow and their digital skills below average. Faster internet access will allow more people to work from home, improve access to online services, including training, health and e-commerce, and may encourage more services to move out of major urban centres. Less developed Member States will benefit more from this transition as their firms lag behind in their use of digital technologies, e-commerce and e-business practices.

Demographic change, notably ageing, will affect all regions, but rural regions first. Over the next decade, population aged 65 and above is projected to grow by more than 25% in one out of five regions. The working age population is projected to shrink by more than 10% in one out of four regions. The population below 20 is projected to shrink by more than 10% in one out of three regions. Overall, the share of population living in a shrinking region is projected to increase from 34% to 51% between 2020 and 2040 (Chapter 6). Rural regions are especially affected as they are already shrinking (Figure 3). These trends may affect growth potential, skills development and access to services.

Figure 3: Natural population change, net migration and total population change by urban-rural regional typology and by type of metro region during the years 2010-2019

Average annual change per 1000 residents	Natural population change	Net migration	Total population change		Average annual change per 1000 residents	Natural population change	Net migration	Total population change
North-Western					North-Western			
Urban	2.5	4.1	6.6		capital metro	5.1	3.3	8.4
Intermediate	0.1	3.8	3.9		other metro	0.5	4.5	5.0
Rural	-1.3	2.5	1.2		non-metro	-0.8	2.7	1.8
Southern					Southern			
Urban	0.0	2.5	2.6		capital metro	1.0	2.7	3.7
Intermediate	-1.7	1.9	0.2		other metro	-0.5	2.5	2.0
Rural	-4.7	1.0	-3.7		non-metro	-2.5	1.5	-1.0
Eastern					Eastern			
Urban	-0.5	2.7	2.2		capital metro	-0.3	4.7	4.5
Intermediate	-1.9	-0.4	-2.3		other metro	-1.0	0.2	-0.7
Rural	-1.9	-2.3	-4.2		non-metro	-2.4	-2.3	-4.7
EU					EU			
Urban	1.2	3.3	4.5		capital metro	2.7	3.5	6.2
Intermediate	-0.9	2.1	1.2		other metro	0.0	3.2	3.2
Rural	-2.0	0.4	-1.6		non-metro	-1.8	0.8	-1.0

In recent years, some places in Europe experienced sluggish or declining economic opportunities, social mobility and quality of life. Such long-term economic decline has fed a growing discontent among citizens. Eurobarometers show that rural residents are more likely to think that their voice does not count and to distrust the EU. However, citizens have more confidence in regional and local governments than in national or EU-level authorities. To address these concerns, the green and digital transitions should be fair and just, managed in an inclusive manner and developed in partnerships with regional and local governments.

5. CHALLENGES FOR COHESION POLICY

The Strategic Foresight Report⁷ highlights climate and other environmental challenges, digital hyperconnectivity and technological transformations, pressure on democracy, shifts in the global order and demography as major trends. Over the past two decades, cohesion policy has reduced economic, social and territorial disparities. Yet the major green, digital and demographic transitions may create new disparities, increase demands on national and local authorities, feed popular discontent and put pressure on our democracies. These challenges will also affect other developed countries. Policy exchanges with other interested countries could further enrich our policy debate.

How can cohesion policy, together with other EU policies, address these new challenges? Europe's citizens need to have confidence in their future, wherever they live. Cohesion policy can reassure Europeans in three ways: first, by offering them a positive economic perspective for their region; second, by addressing their concerns about their quality of life, employment opportunities and social inclusion, and third, by ensuring that the costs and benefits of meeting new challenges are shared fairly. This can be done by identifying the best responses to these new drivers of disparities, strengthening the role of regions and factoring in territorial impact of horizontal EU policies. In line with the goal of upward social convergence of the European Pillar of Social Rights, a broad policy debate under these headings, should be launched to feed into the development of the policy post 2027.

Addressing new drivers of disparities by:

- **Ensuring a fair transition.** Shifting to a climate neutral, circular economy, protecting our environment, restoring nature and reducing pollution will generate many benefits, but its costs should be distributed fairly. The Just Transition Mechanism could be extended to address the social costs of climate change mitigation and adaptation and the other environmental challenges, including through better anticipation of structural change, fighting against poverty, investing in skills and working closely with social partners and civil society actors at all territorial levels.
- **Strengthening resilience and responsiveness to asymmetric shocks.** The pandemic underscores the need for cohesion policy to be able to respond to unexpected shocks, notably linked to globalisation and technological change. Regions heavily dependent on a few narrow tradeable manufacturing or service sectors are particularly vulnerable. Diversification of economic activity, notably in relation to the digital transition in combination with place-based policies, such as smart specialisation strategies, can help regions become more productive and less vulnerable to shocks.

⁷ https://ec.europa.eu/info/strategy/strategic-planning/strategic-foresight/2021-strategic-foresight-report_en

- **Helping regions to respond to demographic change.** Firms will have to adapt to a shrinking labour force by recruiting more from groups with lower employment rates such as youth, women and non-EU migrants, and by investing more in innovation, labour saving and augmenting technologies, and in adult learning, in particular of older and low-skilled workers, which would help to reach the Porto Summit goals⁸. Primary and secondary schools will have to adjust to the lower number of pupils, while other public services and healthcare will need to serve a growing number of older residents.
- **Addressing pressure on democracy and its values.** Territorial instruments to engage local actors in cities, towns, rural areas, coastal areas and islands and the partnership principle in cohesion policy can help address pressure on democracy by increasing ownership of European policies. Territorial cooperation creates new communities of common interest and supports the visible delivery of public goods at different territorial levels.

Strengthening the role of regions in building Europe's future by:

- **Creating new economic perspectives for less developed and peripheral regions.** Less developed regions and peripheral regions may need a new development paradigm. This should take account of emerging opportunities, international links, the territorial distribution of specific needs and endowments, and the provision of public goods such as strategic resources, biodiversity, renewables and amenities.
- **Embedding innovation in all regions.** Addressing weaknesses in the diffusion and adoption of new ideas and technologies and encouraging broad-based innovation will ensure that all regions can reap the benefit of an increasingly knowledge-intensive economy.
- **Strengthening cross-border and interregional cooperation.** The pandemic highlighted the difficulties of having to cross a national border for work, education, healthcare and other services. Road and rail transport performance are lower in border regions. Addressing these issues requires better governance of functional border areas, a stronger coordination of services, infrastructure and investments, and exchange of experience supported by pan-European research.
- **Strengthening urban-rural links and the role of smaller cities and towns in supporting rural areas.** Large cities and their metropolitan regions often drive economic development. Certain smaller cities, towns and villages provide access to a wide range of public and private services. Their role as regional centres means they provide an anchor point for the wider region. Strengthening their role could boost economic development and improve quality of life. While urban areas have distinct

⁸ Including the goal that each year at least 60% of adults follow a training. <https://www.2021portugal.eu/media/icfksbg/porto-social-commitment.pdf>

challenges, further reinforcing links within functional areas could benefit both urban and rural residents. The long-term vision for rural areas⁹ provides a framework to address the challenges facing rural areas.

- **Addressing the needs of left behind places.** Some regions are confronted with the legacy of structural changes that have shrunk traditional sources of employment leading to skills mismatches and environmental degradation, creating development traps. Such areas are often located in middle-income countries or regions. They require targeted policies to integrate these communities into the broader regional and national economy, in line with the principles of the European Pillar of Social Rights.

Developing the tools to deliver cohesion towards 2050 by:

- **Increasing the effectiveness of place-based policies.** The need to complement nation-wide structural policies with place-based policies is increasingly recognised. Smart specialisation shows how to build on local assets to strengthen competitiveness and the innovation ecosystem. Locally targeted Territorial Just Transition Plans direct European support to the firms, workers and communities most affected by climate-driven structural change. This approach should be strengthened for other key policy objectives under cohesion policy, notably for the green and digital transitions. In addition, the integrated territorial development approach and the dedicated policy objective ‘Europe closer to citizens’ should be fully utilised.
- **Further streamlining the delivery of cohesion policy for beneficiaries.** Based on simplifications and flexibility already introduced in the 2021-2027 programming period, both under cohesion policy and other relevant investment-related funds, explore additional beneficiary-friendly improvements in the delivery of the policy. At the same time the key tenets of a place-based and participatory delivery, such as multi-level governance and partnership principle, should be reinforced.
- **Strengthening the role of cohesion policy in unlocking public and private investment in the green, digital and demographic transitions.** Cohesion policy can play a greater role in encouraging investment at regional, city and local levels, leveraging private sector resources and supporting the necessary institutional adaptations. This means ensuring that public and private actors at the appropriate level have the necessary capacity to sustain such investment through tax revenues, user charges, fees and other sources of income in the longer-term. Such efforts should be linked to support from the Commission to strengthen the framework conditions for sustainable finance.
- **Increasing investments in people throughout their life.** Making Europe competitive and cohesive in the future will require investing more and better in

⁹ COM(2021) 345 final, 30.6.2021.

people's education and training, including their skills, creativity and potential to create businesses and to innovate. This will be essential in order to successfully navigate the technological, green and digital transitions ahead of us. To strengthen its social cohesion and address the needs of left-behind groups, Europe needs to invest in targeted activation and social inclusion measures while continuing to support policy reforms aimed at an inclusive development.

- **Enhancing complementarities within other EU policies.** The current approach to synergies within the EU budget, which concentrates on inputs and financial flows, needs to be more focused on real policy complementarities. A specific regional focus needs to be given to new policy areas - such as strategic interdependencies, social climate policy, European Industrial Alliances - where cohesion policy could be particularly relevant. Territorial impact assessments and rural proofing should be strengthened, so that the needs and specificities of different EU territories are better taken into account. The principle of “do no harm to cohesion”, meaning no action should hamper the convergence process or contribute to regional disparities, should be further developed and integrated in policy making.
- The EU's Recovery and Resilience Facility will provide up to €724 billion to Member States. Of this funding, 37% has to support climate action and 20% the digital transition. Ensuring that these resources **contribute to cohesion** in a coordinated way will be a key challenge.

The 2022 Cohesion Forum will launch a debate among stakeholders on the lessons to be drawn from the recent crisis and a reflection on future challenges for cohesion policy, ensuring that no territory is left behind.