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Territorial impact and responses to COVID-19 in Lagging Regions.

The Coronavirus Response Investment Initiative (CRII) and Cohesion Policy related responses

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Abstract

This report has been prepared as part of the Lagging Regions project of the JRC, which aimed to support the implementation of Smart Specialisation Strategies in selected low-growth and less developed regions in EU Member States.[1] In April 2020 following the onset of the COVID-19 global pandemic, a series of questions was sent to Lagging Regions partner territories in order to determine their policy responses, specifically in the context of initial European Commission initiatives such as the Coronavirus Response Investment Initiative (CRII) under Cohesion Policy. This paper collects and builds on the responses received in order to give an indication of the potential consequences of the global public health crisis on some of the least developed regions of the European Union.

Foreword

Working in cooperation with DG REGIO, the JRC Lagging Regions Project implemented a series of European Parliament Preparatory Actions. Its core aims were to provide concrete support to the implementation of Smart Specialisation Strategies for Research and Innovation (RIS3) in selected low-growth and less developed regions in EU member states and to develop a cross-cutting approach to key issues regarding growth and governance in those regions. Its main activities included:

- **Stocktaking and assessment** of the state of RIS3 implementation in selected partner territories
- **Specific support activities –** undertaken in selected partner territories - centred on stakeholder engagement to catalyse and sustain the Entrepreneurial Discovery Process (EDP), targeted support for RIS3 implementation pipeline (from defining priorities to launching projects), and the linkages between national, regional and sub-regional RIS3.
- **Horizontal support and peer learning –** developing approaches to key common issues with wider relevance, including RIS3 governance, monitoring and evaluation, industrial transition and international collaboration.

The impact of this work and the lessons emerging are highly relevant not only for stakeholders in the regions, but for those in other lagging regions across the EU as well as for policy makers at EU level. The report focuses on a specific moment in time, the first wave of the pandemic in Europe and the introduction of EU initiatives to deal with the crisis. The report aimed to highlight challenges and possible consequences specific to lagging regions in the view of potential further waves and the need for appropriate and timely policy responses on the verge of a new financial perspective and the 2021-2027 programming period. Further analysis of subsequent waves was not possible within the timeframe of the JRC's Lagging Regions project.

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Executive summary

The impact of COVID-19 has been asymmetrical, and the crisis has exposed the inequality and vulnerability of certain groups and territories. Impacts differed across territories in relation to the spread of the virus and related health consequences, the length and strictness of the confinement measures, divergent economic and industrial structures and specialisations, labour market composition and their degree of integration into global value chains. Places that were more connected had earlier cases but have tended to show greater resilience whereas weaker regions, smaller firms and disadvantaged workers have been disproportionally affected, with the negative consequences further compounding long term challenges. Lagging regions were, and continue to be, potentially particularly vulnerable to the effects of the crisis, and this paper explores the key issues and responses of a number of lagging region territories in the EU during and immediately after the first wave hit the continent in Spring 2020.[1]

Policy context

Policy decisions shape the adaptive capacity of a region to cope with and recover from an external shock. The pandemic has triggered a variety of different policy responses and place-based actions that have had and will continue to have variable impact. National responses are dependent upon the fiscal space available to governments and local responses upon the resilience of communities and economies.[2] At EU level the redirection of cohesion policy funding was made possible under the Coronavirus Response Investment Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+) to mitigate and tackle the negative effects of the crisis and aid recovery and resilience.

Key conclusions

The impact of the COVID-19 pandemic and ensuing economic crisis on different territories, groups and sectors has been and continues to be highly variable and unevenly distributed. There is a risk that the crisis, and immediate short term policy responses, have exacerbated territorial disparities and potentially reversed the convergence process between Member States and regions. The potential to redirect 2014-2020 cohesion policy funding to mitigate and tackle the negative effects of the crisis did not reflect need or the challenges related to the coronavirus crisis but rather the amount within the ESIF national allocations under the 2014-2020 programming period that had not yet been committed. Financial virements in response to COVID-19 left lower resources available for non-COVID-19 related policies and activities, in some cases in direct contradiction to the principles of Cohesion Policy, it was possible to transfer funds away from less-developed regions to more developed regions which were some of the worst-hit in terms of health impact.

Many initial policy responses were applied uniformly, neglecting to take into account territorial specificities and the longer-term need for resilience and preparedness for future shocks. However, policy responses increasingly demonstrated preparedness and resilience, transforming economic development processes to meet the particular challenges of the pandemic on their territory. The subsequent launch of the EU's REACT-EU[3] and Recovery and Resilience Funding lends itself to a longer-term approach, but how initial responses and policy approaches are subsequently built into, inform or are integrated into the longer-term recovery planning is yet to be determined. The crisis and the instruments developed to deal with economic recovery will impact upon ESIF programme performance into the 2021-2027 programming period as well as the design and implementation of Smart Specialisation in the context of a vastly changed socio-economic background and policy context.

[1] In 2015 the European Commission launched the Lagging Regions initiative – a pilot initiative to examine the factors that hold back growth and investment in catching up regions and to provide recommendations and assistance on how to unlock their growth potential. Among the 47 EU regions meeting the formal criteria established by DG REGIO, the specific partner regions for the JRC's Lagging Regions project were selected on the basis of both proposals/recommendations by REGIO country desks and the willingness (and capacity) of the regions (and their key stakeholders) themselves to engage in project activities.

There are two specific types of Lagging Region:

Low growth regions, i.e. those NUTS2 regions that did not converge to the EU average GDP per head at PPS between the years 2000 and 2013. This group covers almost all the less developed and transition regions in Greece, Italy, Spain and Portugal.

Low income regions, i.e. those NUTS2 regions with a GDP per head in PPS below 50% of the EU average in 2013. This group covers several less developed regions of Bulgaria, Hungary, Poland and Romania. (https://ec.europa.eu/regional_policy/en/information/publications/reports/2017/economic-challenges-of-lagging-regions)

[2] https://www.un.org/development/desa/en/news/policy/june-wesp-monthly-briefing.html

[3] The CRII/CRII+ initiatives were reinforced on 27th May 2020 with the REACT-EU package, which is additional EU funding to top up existing cohesion fund programming, see: https://cohesiondata.ec.europa.eu/stories/s/REACT-EU-Fostering-crisis-repair-and-resilience/26d9-dqzy

1 Introduction

The COVID-19 pandemic is a global health crisis which impacts not only in terms of the damage to people's health and strain on health systems, but also in relation to the lockdown measures introduced to stop the spread of the virus. The strict lockdowns that were imposed in 2020 have severely impacted economic activity – businesses, jobs, commodity prices, value chains, and consumer demand as well as education and inequality.

As a result of the pandemic, the global economy was projected to contract 3 percent in 2020, more than during the 2008–09 financial crisis, with the most severe reduction in economic activity and working time since the Second World War.[4] The OECD estimated that for each month of lockdown, there would be a loss of 2 percentage points in annual national GDP growth, and the second quarter of 2020 saw the sharpest decreases of GDP in the EU since the series begin in 1995, with a drop of 11.4% in the EU, and with initial estimations of EU annual growth in 2020 suggesting a 6.4% drop. The EU labour market experienced the most substantial and rapid decrease in employment (persons and hours worked) historically ever recorded, although with much of that decline recovered in the subsequent quarter.[5] Inequalities in the labour market reflecting educational, gender, age and race have been exacerbated, with low-skilled workers, women, youth, migrants, and informal workers, more exposed to lay-offs and less protected.

The impact of the crisis on different territories, groups and sectors has been and continues to be highly variable. The European Semester and Country-Specific Recommendations process recognised the likelihood that the socio-economic consequences of the pandemic would be unevenly distributed due to different specialisations and this would risk further widening territorial disparities and potentially reversing the convergence process between Member States.

This paper looks at the key issues and responses of the lagging regions (as defined in the JRC project that ran until December 2020) during and immediately after the first wave hit the continent in Spring 2020. Partners were approached to explore key issues emerging in the territories and determine the nature of programme and policy responses in relation to health, business, and employment. The consultation considered initiatives and responses that adapted services to provide support to affected sectors and actors in the short term but also the redirection of cohesion policy funding to mitigate and tackle the negative effects of the crisis and aid recovery and resilience. The role of Smart Specialisation (RIS3) as an entry point to broader structural issues that may emerge or be reinforced as a result of the COVID-19 crisis is also considered. Responses were received from all Lagging Region partner territories bar two, and in a number of cases responses were compiled across different national and regional agencies and consolidated into a single territorial response. DG REGIO officers were also consulted but not on an exhaustive basis.

Policy responses

The pandemic initially triggered a variety of different policy responses at different government levels, reflecting, to varying degrees, different impacts in different territories. The health impact, for example, of COVID-19 and hence policy responses were highly variable. Portugal for example, in April 2020, taking into account its population size, experienced virus-related deaths three to seven times lower than those in other Western European countries (such as Italy and Spain) and the National Health Service coped without major disruptions and without full intensive care capacity being reached (the peak was over 80 per cent at the beginning of March). However, patients with diseases unrelated to COVID-19 may not have received the health care they required during this period. Similarly, Hungary moved quickly to lock down the country and emptied hospital beds in anticipation of a wave of COVID-related influx of patients which never materialised. Initial deaths for the most part occurred in Budapest in old peoples' homes; whether there will be a knock-on effect on mortality rates from sending sick patients' home has yet to be determined.

The second step in most countries after responding to the immediate health concerns was to cushion the knock-on effects on millions of people's lives, their livelihoods and the real economy, through the direct provision of resources to support workers, households, business and jobs. Fiscal and monetary responses have tried to reduce the burden on those who can bear it least but estimates of economic impact vary.

In the height of the first wave of the pandemic, the European Commission launched two packages of measures: the Coronavirus Response Investment Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+) to mobilise cohesion policy to respond to rapidly emerging needs in the most exposed sectors and

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[4] IMF (2020) World Economic Outlook, The Great Lockdown

[5] EU Interim Winter Forecast February 2021; Eurostat, 2nd February 2021, Euro Indictors, available at: https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/2-02022021-AP-EN.pdf/0e84de9c-0462-6868-df3e-dbacaad9f49f

territories. Cohesion Policy rules were adapted to enable uncommitted cohesion policy funding to be reallocated to the health sector, SMEs and in response to labour market issues, and to transfer funds to different territories or between different funds.[6] Responses at other government levels tended to reflect the fiscal space available to governments at national level and the resilience of communities and economies for local responses[7].

[6] Whilst the European Commission proposed further subsequent initiatives to provide additional support to Member States, regions and sectors most impacted by the coronavirus outbreak, this research focused on the immediate effect and responses to the COVID19 crisis following the first wave of the virus in 2020, which coincided with a short extension to the JRC Lagging Regions' project.

[7] https://www.un.org/development/desa/en/news/policy/june-wesp-monthly-briefing.html

2 COVID-impact in Lagging Regions

The full effect of the COVID-19 crisis and lockdown is not yet fully known; the effects of repeated and varying levels of lockdown have yet to play out fully in different sectors and organisations. The impact has varied across territories, for the most part depending upon the sectoral mix in the region, but also on to the length and depth of restrictions put in place. In Poland for example initial impact was less dramatic than in some of the worst hit Member States and regions, but Poland is a large country that had positive growth rates even during the 2008/2009 financial crisis. Respondents expected the impact to be felt more significantly in the autumn of 2020, where companies would not see a recovery as quickly as expected and the model of consumption would likely to have changed. Indeed, whilst three quarters of Polish enterprises surveyed during the first lockdown felt that recovery would take less than a year, by the end of August 2020 nearly a third expected the crisis to continue for many years.[8]

Generally, the impact on the labour market and on unemployment levels has been significant across all sectors. In some lagging regions respondents claimed up to 85% of firms reported an impact on their business, and the most significantly affected sectors were generally identified as healthcare and tourism. In Spain, the Autonomous Communities with a high reliance on tourism have been the most impacted, and this is mirrored across the EU, with coastal areas and islands having been most significantly affected generally. So, for example whilst unemployment claimants increased by around 40% in the Balearic and Canary Islands during the initial lockdown, in Extremadura it was much lower at 21.3%. Meanwhile, employment in health and other essential services increased by 6.3% in the same period.[9]

However other lagging regions' sectors have also reported to have taken a hit. Consumer goods and services such as hospitality and catering, beauty and hairdressing were heavily impacted by containment policies, closely followed by trade and manufacturing sectors, with construction and real estate experiencing a less immediate impact. Education, creative / artistic sectors and agri-food sectors were also cited by respondents as struggling to deal with the effects of the crisis. Whilst some lagging regions highlighted the impact on urban areas, other more rural territories such as Extremadura noted the impact on their agri-food sectors with the closure of hospitality. The agri-food sector contributes 7.8% to regional GDP in Extremadura, three times the national average, and falling prices for produce (sometimes by up to almost 50%) hit the sector hard. The food sector was susceptible to changing demand in product type (as restaurants purchase different produce to households), supply chain disruption and higher transport costs.

It was widely agreed that SMEs, and especially micro-enterprises, family businesses and the self-employed with limited financial liquidity, had been the most affected across all sectors but especially those in the hospitality and tourism sectors. A number of lagging regions territories have an economic profile dominated by MSMEs and self-employed persons e.g. Lubuskie, and these have tended to be the most vulnerable to the economic impacts of the crisis. The relative importance of SMEs in Italy for example, where they generate 66.9% of the overall value added in the national "non-financial business economy", and 78.1% of the employment generated, far exceeds the EU average of 56.4% and 66.6% respectively, whilst the figures for micro firms show they provide 44.9% of employment compared to the EU average of 29.7%.[10] Italian SMEs in sectors or regions that were forced to close faced serious liquidity issues and the uncertainty of the crisis impacted upon their ability to access finance and retain workers, especially those more highly-skilled.

The majority of governments quickly put in place support measures such as payment holidays, subsidies to pay staff and business loans and actions to improve export and internationalisation opportunities for business. For example, Greece put in place a 100% Interest subsidy on existing loans to SMEs affected by COVID-19 pandemic measures for April, May and June of 2020; in Bulgaria the government supported 60% of wages for three months in companies affected by the pandemic.[11] Whilst there has been a strong focus on health sector capabilities and capacities (including COVID-19 related research) and digitalisation needs and challenges in relation to tele-working and tele-schooling, measures have been quite wide-ranging. Italy for example introduced funding for remote education, a pilot programme to encourage commuting by bicycle and funding to improve safety in tourism facilities.[12] However, sometimes lagging regions' measures were seen by respondents to have arrived too late, not been implemented in a timely fashion, or the eligibility criteria neglected important groups that were struggling such as micro-enterprises.

[8] Polish Economic Institute, 2020, The economy under lockdown, Poland compared to the rest of Europe.
[9] Interview responses and IvieLab, 2020.
[10] OECD, 2020, Italian regional SME policy responses
[11] European Commission, 2020, Policy measures taken against the spread and impact of the coronavirus, internal paper dated 2 July 2020.
[12] Ibid

The deterioration of public finances or reduced availability of public funds as a result of the crisis has further stretched the ability of regional/local government to provide services and meet their obligations. Nevertheless, there are a number of other local policy initiatives/responses to the impact of the pandemic. Póvoa de Varzim (Portugal) created an interactive map to promote small and medium-sized businesses in the municipality, divided by sector, which operate by appointment, take away, home delivery and/or online sale. Rijeka (Croatia) and Gabrovo (Bulgaria) exempted businesses from paying certain business- or utility-related fees.[13]

Longer term impacts of both the pandemic and the lockdown are unknown, and are seen to depend upon, for example, the ability to get sectors such as tourism, which additionally have a significant indirect impact on other sectors, back up running again, and the extent to which subsequent waves of COVID-19 lead to further lockdowns, either at home or in foreign markets.

Opportunities emerging from the crisis identified by respondents mostly relate to the acceleration of digital transformation, upskilling and tele-working, and the associated improvements in public services and advantages to peripheral territories. Whilst initial bottlenecks occurred in relation to IT processes and health and social care, territories were increasing seen to be demonstrating preparedness and improving their future resilience. New business models, opportunities and ways of working were welcomed and their contribution to ensuring a greener, more sustainable future recognised e.g. a boom in e-commerce and an increasing use of internet banking. Other advantages could be found in the global collaboration and knowledge transfer that has been happening around COVID-19 as well as the opportunity to develop more green, rural, sustainable forms of tourism, that give different territories a competitive advantage. Interestingly respondents also referred to trends towards reducing supply chains, developing local supplies and demand and developing local economies. Some of the less traditional tourism destinations (Podlaskie and Lake Balaton in Hungary) had experienced a boost from increased domestic tourism. Other potential opportunities for the Lagging Region Partner territories that were reported more widely included, for example, an increase in exports from Extremadura (the only Spanish Autonomous Community to do so in the first wave of COVID) due to its very unique international specialisation[14]. Bulgaria has, since 1990 lost 1.3 m people or around a fifth of its population, yet COVID would cause a temporary reversal in migration trends with significant numbers of citizens returning to an economy that has suffered population decline and the loss of talent from its workforce for decades.[15]

[13] https://cor.europa.eu/ES/engage/Pages/COVID19-stories.aspx?#282; https://cor.europa.eu/en/our-work/EURegionalBarometerDocs/4370-Barometer%20optimized.pdf

[14] IvieExpress - El impacto del COVID-19 sobre las exportaciones de bienes de las comunidades autónomas

[15] https://ecfr.eu/wp-content/uploads/Remigration-Report-ECFR-EN.pdf

3 ESIF programming impacts

The extent to which ESI funded programmes and smart specialisation strategies relevant to the Lagging Regions address healthcare issues varies, as has the nature and size of the proposed allocations and programme modifications resulting from the current pandemic. A key aspect concerns the fact that the CRII allocation does not reflect need or the challenges related to the coronavirus crisis but the amount within the ESIF national allocations under the 2014-2020 programming period that had not yet been committed. Therefore, of the €37 billion of cohesion policy money available, national amounts varied from as little as 1.6 billion euros in Portugal to 12.1 billion euros in Poland and have therefore not tended to reflect the actual impact of coronavirus upon the country, either in terms of public health or economic lockdown.[16] Italy and Spain, two of the worst hit states under the first wave of COVID-19, were allocated CRII funding equivalent to 0.1 percent and 0.3 of their GDP respectively compared to Hungary at 3.9 percent or € 5.6 billion, when on 27 March 2020 Hungary had only had 10 COVID related deaths. Only one country, Poland, was allocated more money in absolute terms than Hungary; although it received proportionally less than Hungary when size and population are taken into account.[17]

Previous conditions around health expenditure under ESIF programming for some lagging regions i.e. that structural changes had to take place before health-related activities could be funded under ERDF quickly became obsolete. Funding was made available for hospital equipment to respond to the public health crisis on the ground, and programme modifications requested to purchase respirators, cardio monitors, ambulances, intensive care beds, defibrillators, laboratory equipment, buffer tents, disinfection and decontamination facilities as well as personal protective equipment.

Financial virements in response to COVID-19 leave less resources available for non-COVID-19 related policies and activities. Both the OP Infrastructure and Environment and the OP Smart Growth modifications in Poland included a transfer of funds away from less-developed regions to more developed regions, and hence seem to flout the general principles of Cohesion Policy. Similarly, in Italy, lower rates of commitment and expenditure of European funding in less developed regions resulted in higher allocations being available for potential reprogramming for policies to support COVID response and recovery of worst-hit regions, which tended to be more developed. 47.43% of ERDF and 26.81% of ESF had been spent in the less developed regions at the end of 2019, compared to 65.5% and 37.5% in the more developed regions.[18] However, as a result, the less developed regions could potentially count on a larger financial availability of 2014-2020 ESIF compared to other Italian regions, due both to a larger initial allocation and the delay in using such resources.

Managing Authorities reported mixed experiences in terms of reallocations internal to their Operational Programmes. Some authorities did not have sufficient uncommitted resources still available at the late stage of the 2014-2020 programming period and were not able to make full use of the opportunities provided under CRII and CRII+. The Croatian Operational Programme "Competitiveness and Cohesion" was 100% committed for example, and therefore unable to meet all needs in the health and economic sectors. For others, the utilisation of ESIF for COVID-19 related responses has created a funding gap in relation to other, previously planned, actions. In Bulgaria, for example, the OPIC was due to fund the creation of around a dozen Regional Innovation Centres in the first half of 2020[19], and these were suspended under the current programming period as a result of the COVID-19 crisis. The centres would support business – science links in the regions in the areas of RIS3, including links in the domains of mechatronics, clean tech and digitalisation, and Bulgarian authorities hope to re-launch the procedure in the next programming period 2021 – 2027[20]. There is an additional knock-on impact on territories, actors and the wider economic context, as a result of delays in the implementation of key activities and projects under cohesion policy from COVID lockdowns and restrictions.

Generally, however, the possibility to reallocate funds between Cohesion Policy funds and categories of regions, temporarily increase the co-financing rate to 100 % and the financial flexibility of 10 % at the end of the programme were perceived as particularly effective means to address the crisis. Whilst the CRII focus on health, SMEs and the labour force enabled a response to the immediate and exceptional threats, a more strategic approach was considered necessary in the longer term to improving resilience to such events in the future.

[16] Presentation by Marek Przeor, DG REGIO, at the European Cluster Alliance meeting, 19 May 2020

[17] The wizard, the virus and a pot of gold - Viktor Orban and the future of European solidarity, ESI Report 18 April 2020

[18] OECD, 2020, Italian regional SME policy responses

[19] BG16RFOP002-1.027 - Establishment and development of Regional Innovation Centers (RIC)

[20] Stefanov, R., Boeckholt, P. and Pontikakis, D., POINT Review of Industrial Transition of Bulgaria, EUR 30643 EN, Publications Office of the European Union, Luxembourg, 2021, ISBN 978-92-76-32322-8, doi:10.2760/241737, JRC123901.

Interestingly, digitalisation was seen by some to be the key to improving resilience and sustainability, and hence one area of that should be specifically have been supported under the CRII initiative.

Flexibilities around project closure, the 100% co-financing rate as well as measures under the Temporary State Aid Framework have also been employed by Managing Authorities (MAs) under the ESIF programmes. A number of MAs felt the additional flexibilities and "power" granted to them to make quick decisions and the improved programming flexibility (such as the partial exclusion of thematic concentration requirements for climate-related expenditure and the reduced emphasis upon meeting indicator targets) were essential in their ability to respond to the crisis and mitigate its socio-economic impacts. Lubuskie were able to hold an emergency call for proposals to support businesses affected by COVID-19 to mitigate the effects of the economic shock through the use of mechanisms such as the Lubuskie Bases of Entrepreneurs Support. Nevertheless, MAs cautioned that using these flexibilities has tended to place additional management burdens on them at a time when they were trying to find a new normality, ensure that ESIF investment could continue to be contracted and implemented in line with legal requirements, and prepare for the new programming period 2021-2027.

The crisis will impact upon programme performance and governance as well as RIS3 implementation at the end of the 2014-2020 current programming period but will equally impact on the future design and implementation of Cohesion Policy and Smart Specialisation in the 2021-2027 programming period, in the context of a vastly changed socio-economic background. The initial response of the European Commission was seen very positively in terms of releasing funding under cohesion policy, and respondents hoped for a revision to the MFF and ESIF regulations for 2021-2027 that would enable a better response to the expected subsequent waves and lockdowns, even to the extent of incorporating similar flexibilities into the early years of the new programming period. Subsequent EU initiatives have built further on the initial support provided under CRII and CRII+ and ultimately will dwarf them in comparison in scope and financial allocation, but at the time of the interviews had not been established or foreseen.

In terms of interregional collaboration, international exchanges of experiences and practices has been vital in this period, ranging from medical responses and equipment through to research collaboration; to border security, scenario planning and crisis management, and cross-border aspects around tourism, value chains and exports. Resilience was seen to be enhanced where public authorities work together with neighbouring authorities; where different levels of government work together to share risks; and where there had been a collaborative approach to working with economic and social partners.

4 Impact on Smart Specialisation

There was a difference of opinions in relation to the role of smart specialisation during the crisis and in relation to response and recovery. Some stakeholders felt that the administrations were (understandably) distracted by the crisis and that they were only reacting to events and the most immediately impacted sectors and their requirements rather than actively working towards achieving RIS3. In many territories the required concentration of funding on RIS3 thematic priority areas was lifted and so RIS3 implementation was seen to be partially suspended or delayed in the case where project closure dates had been extended due to the crisis.

Other administrations felt that smart specialisation had proved very relevant and in fact consolidated its role and importance in the context of a strategic long-term vision for economic recovery. The crisis has coincided with the review of RIS3 in the territories in many cases and the redefinition of the strategy has tended to incorporate a greater emphasis on resilience in responding to future crises, as well as an opportunity to strengthen RIS3 governance through the involvement of the structures established to provide a rapid response to the pandemic. The crisis has opened up new ways of working, new innovations in production and distribution and new innovative opportunities and products, and has shifted focus in many cases to R&I. In Croatia, RIS3 thematic priority areas include “Pharmaceuticals, biopharmaceuticals, medical equipment and devices” and “Health services and new methods of preventive medicine and diagnostics” and hence research and development investment in these areas resonated well with the public health crisis.

However, some regions have delayed the review or update of their specialisations in view of the negative impact of the crisis on business, its disruption of supply chains and R&D investment, alongside the expectation that cohesion policy requirements and focus would be adapted as a result of the crisis. Existing economic relations and models of consumption are likely to shift as well as economic relations with other non-domestic actors. Hence reassessment of existing policies was likely to be necessary and the emergence of new specialities likely. Smart specialisation was therefore felt to be facing a test of its effectiveness and feasibility.

5 Conclusions

The impact of COVID-19 on different territories has tended to depend upon a myriad of factors, such as the intensity of the epidemic, public health facilities and capabilities, public administration capabilities, sectoral mixes, labour force composition and economic resilience. The length and strength of COVID-19 related lockdowns equally have a variable or asymmetrical territorial impact, depending not only upon the intensity of business disruption and length and restrictiveness of lockdowns but also the diversity of regional socio-economic characteristics and sectoral compositions. At the point of undertaking the research, there remained significant uncertainty about the depth and duration of the crisis, as well as significant variations in terms of the rate of vaccination campaign roll-out and potential recovery across different territories. Generally, past experience shows that Innovation Leaders: territories with higher levels of innovative and highly skilled workers and more diverse, export-orientated economies, recover more quickly from external shocks and crisis[21].

In most cases initial policy responses to the COVID-19 pandemic in the areas of health, SMEs and labour force in lagging regions were quick and effective, particularly for example measures that ensured liquidity of firms and safeguarded jobs. However, some lagging regions suffer from structural issues, for example in the set-up of the health service, or long-term funding or capacity issues that may have hindered the success of some of the responses. Equally initial responses to the pandemic and economic crisis were more place-blind and applied universally, rather than adapted to territorial specificities or reflecting cohesion policy categorisation and principles. However, policy responses increasingly came to incorporate a level of territorial preparedness and resilience, transforming economic development processes to meet the particular challenges, sectoral or otherwise, of the pandemic on their territory. Interestingly, digitalisation and accelerated digital transformation in response to the pandemic helped compensate for physical constraints and the more systematic use of digital services and technologies was a potential game changer for lagging regions. Digitalisation was one area in which respondents felt initial responses under CRII and CRII+ fell short, and subsequent initiatives that have since been launched such as the Recovery and Resilience Fund better recognise and prioritise the role of the digital transition in European recovery.

The nature of the crisis meant that sometimes potential interaction with other policies or longer-term broader consequences were not fully understood or taken into account. It is currently unclear the extent to which the quick mobilisation of the CRII and CRII+ contradicted the principle of convergence and territorial cohesion in the EU. Reprogramming in many Member States is not finalised but still ongoing into 2021 and capturing the impact of programming changes is not always possible, especially where, for example, already planned investment was simply modified to take account of the changing circumstances e.g. qualitative changes to SME support. Whilst the European Commission proposed a set of COVID-related indicators in May 2020 for the purposes of CRII/CRII+ reprogramming, their inclusion is not mandatory, and many programmes have chosen their own indicators that cannot be aggregated at EU level or that set only financial targets rather than result-orientated indicators.[22] What is certain is that the crisis and the instruments developed to deal with economic recovery will impact upon ESIF programme performance into the 2021-2027 programming period as well as the design and implementation of Smart Specialisation. The recent launch of the EU's Recovery and Resilience Fund lends itself to a longer-term approach, but how initial responses and policy approaches are subsequently built into, inform or are integrated into the longer-term recovery planning is yet to be determined.

[21] Innovation and regional economic resilience: an exploratory analysis, Gillian Bristow Adrian Healy https://link.springer.com/article/10.1007/s00168-017-0841-6; https://www.espon.eu/sites/default/files/attachments/ESPON_Territorial-Observation_12-Crisis-Resilience.pdf

[22] See: https://cohesiondata.ec.europa.eu/stories/s/CORONAVIRUS-DASHBOARD-COHESION-POLICY-RESPONSE/4e2z-pw8r/

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List of abbreviations and definitions

CRII	Coronavirus Response Investment Initiative
CRII+	Coronavirus Response Investment Initiative Plus
EBRD	European Bank for Reconstruction and Development
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
JRC	Joint Research Centre
MA	Managing Authority
MFF	Multi-annual Financial Framework
(M)SME	(Micro) Small and Medium-sized Enterprises
OECD	Organisation for Economic Cooperation and Development
OPIC	Operational Programme Innovation and Competitiveness (Bulgaria)

Annexes

Annex 1. Questionnaire sent to Lagging Regions partners, April 2020

1. The COVID-19 crisis has been leading to significant changes in local ecosystems. What do you think are the most affected sectors, actors and territories in your region?

2. Considering utilising the flexibilities under the EC Coronavirus Response Investment Initiative (CRII) package (that mobilises cohesion policy to respond to emerging needs) which funds/areas/sectors should be prioritized?

3. What are the main challenges of local authorities, Managing Authorities and key stakeholders in facing the current situation?

4. How do you see the role of RIS3 and its implementation in this specific context? And in the medium term and looking towards the new programming period? Where can it prove most useful?

5. Where can international (cross border cooperation/ transregional…) cooperation play a useful role currently and in terms of post-COVID19 recovery?

6. What opportunities, if any, do you see beyond the negative effects from the crisis?

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