REGIONAL POLICY IN TIMES OF COVID-19

Neli Georgieva, Liliana Fonseca and John Bachtler

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European Policies Research Centre
School of Government and Public Policy
University of Strathclyde
40 George Street
Glasgow G1 1QE
T +44(0) 141 548 4898
T +44(0) 141 548 3061
E eprc@strath.ac.uk
W http://www.eprc-strath.eu/

Stichting EPRC Delft
Faculty of Architecture and the Built Environment,
Technische Universiteit Delft
Julianalaan 134
2628 Delft
T +31 (0) 15 27 86093
E info@eprcdelft.eu
W http://www.eprc-strath.eu/

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EXECUTIVE SUMMARY

The COVID-19 pandemic started as a health crisis with a spatially uneven incidence of infections and fatalities across countries and regions, and across sections of society and age groups. A number of factors have influenced the spatial concentration of cases including population density, economic activity, demographic and health factors. The initial socio-economic impact of the crisis has also been uneven across individual countries, regions and cities, determined not only by the severity of the health outbreak and the stringency of the containment measures, but also by other factors such as economic exposure and fiscal capacity of discretionary policies.

From a policy perspective, governments mobilised very substantial financial resources to address the immediate needs and target the short-term mitigation of the crisis. National responses included a variety of fiscal support, labour market and social security measures, and selective sectoral support measures. Simultaneously, emerging policy thinking on post-pandemic recovery has embraced the principles of building economic resilience and transformation pathways. The crisis created unprecedented uncertainty but has also offered opportunities to rethink and adopt more fully action on digitalisation, inclusiveness, climate action and sustainability.

The role of regional policy has been rather secondary so far due to the predominantly nation-wide and sector-oriented responses, albeit measures adopted to support short/medium-term economic restart appear to have a more visible regional or territorial aspect. Regional funds have been utilised to promote different business investments and business adaptation to the new reality that COVID-19 created. Furthermore, regional governments are involved in the preparation or implementation of national/regional recovery plans, resulting in some cases in increased responsibilities.

There are potential future implications of the pandemic for regional policy as the regional impact becomes clearer. Key questions concern the need for changes in policy priorities and territorial focus; budgetary limitations related to increased public debts during COVID-19; and stronger regional development intervention where territorial cohesion has risen on the policy agenda.

1 INTRODUCTION

The COVID-19 pandemic has had a massive impact on all aspects of life and work across the world. By mid-September 2020, over 30 million cases of infection had been confirmed with nearly one million deaths globally, of which more than four million cases and 214,000 deaths have been in Europe.[1] Following the WHO declaration of the COVID-19 outbreak as a global emergency on 30 January 2020, governments sought to stem the exponential rate of transmission ('flattening the curve') by progressively enforcing border shutdowns, imposing travel restrictions, introducing quarantines and – most significantly – implementing lockdowns to limit movement and social contact. Many healthcare and social care systems struggled to cope. The dramatic slowdown of economic activity is estimated to have caused a 5.2 percent contraction in global GDP in 2020.[2]

In recent months, European governments have loosened restrictions – at different rates – and implemented recovery measures to restart economic growth. Constraints on travel were lifted, particularly to encourage tourism, and workplaces, schools and universities re-opened at least partially. However, a resurgence of COVID-19 cases, with fears of a 'second wave', have stalled the loosening of restrictions and led to the introduction of local lockdowns in some areas.

The policy responses to containing the pandemic, dealing with the economic impact and stimulating recovery have been primarily nationwide measures, taken by national and (in some cases) sub-national governments. It is, though, clear that the effects of COVID-19 have been highly uneven, and the legacy will affect some regions and sections of society more than others. An important question is whether and how regional policies should respond and, more broadly, whether a fundamental re-assessment of government policy objectives is required.

This paper provides a preliminary review and assessment of the role of regional policies in responding to the crisis. It begins by outlining the uneven spatial incidence of the virus across Europe and the regionally imbalanced economic impacts. The paper then provides an overview of the emerging policy thinking on post-crisis recovery and national recovery plans, before moving on to analyse the role of regional policies in responding to the crisis. Finally, the paper discusses possible implications for regional policy in the medium to long term and raises several points for further discussion.

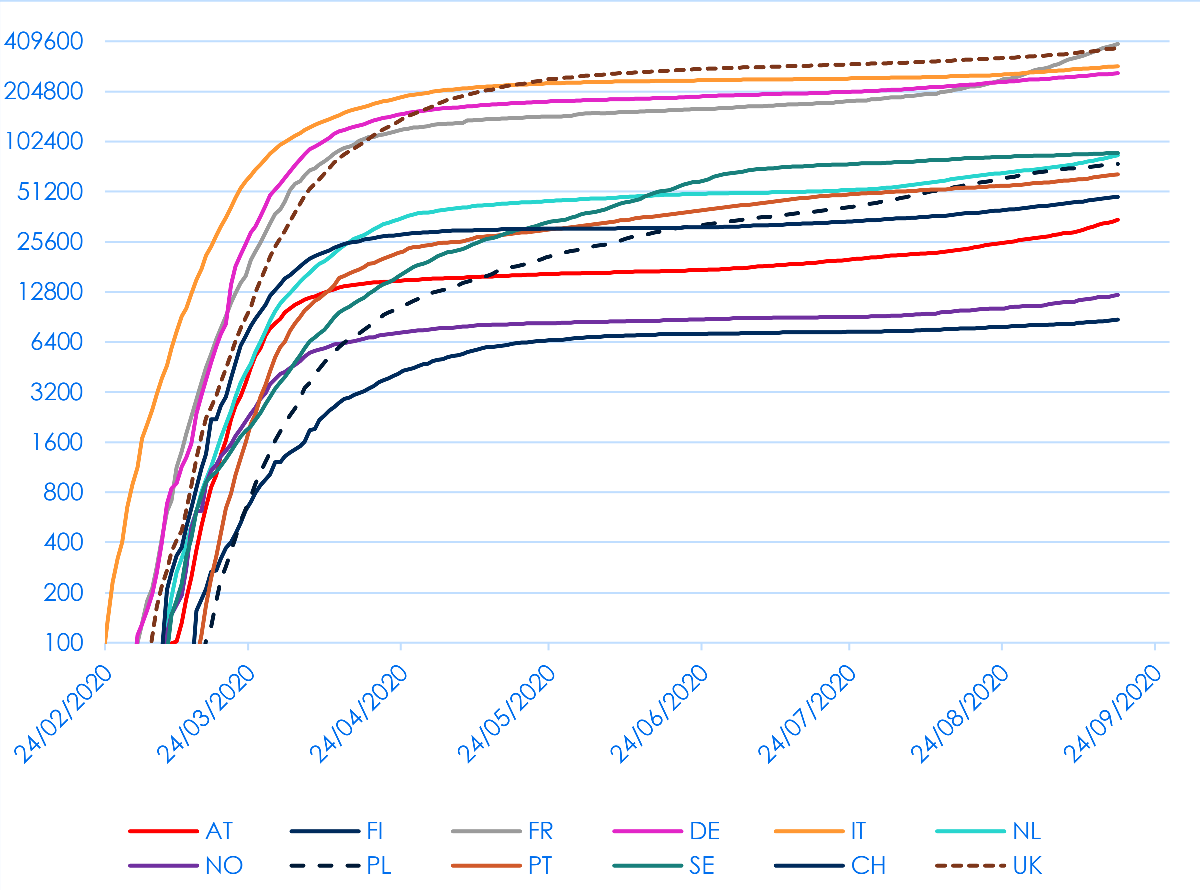
2 WHAT ARE THE TERRITORIAL IMPLICATIONS OF THE COVID-19 CRISIS?

2.1 Spatial incidence of the virus

While the COVID-19 pandemic has affected almost all countries globally, the infection had an uneven spatial incidence and showed patterns of concentration. There are noticeable differences in the spread of the pandemic between age and gender groups, and among countries and types of region.

Among EoRPA countries (see Figure 1), the trajectory of the pandemic has been broadly similar (although very different in scale), with a steep rise in cases in Spring 2020 before slowing down as government-mandated and social changes in behaviour took effect, and then a rise again in recent weeks.

Figure 1: Cumulative confirmed COVID-19 cases (EoRPA countries), September 2020



Source: European Centre for Disease Prevention and Control, https://www.ecdc.europa.eu/en/cases-2019-ncov-eueea, 16 September 2020
Note: For the interpretation of the data on number of COVID-19 confirmed cases, it is important to consider the differences across countries in counting procedures, in the number and type of tests and laboratory capacities.

A mix of often inter-related factors have determined the spatially asymmetric impact of the health crisis.

The geography of economic activity and population density have been among the most important factors. Due to more intense international business relations and tourism activities, **large cities and international travel hubs, were often hit significantly early on by COVID-19 infection**.[3] Structural inequalities within cities, such as the unequal distribution of resources or the uneven access to healthcare, made **particular neighbourhoods and communities within cities more vulnerable to the pandemic**. Some countries experienced a concentration of the pandemic in less densely populated areas, at least in the early stages (e.g. Germany, Estonia), often associated with transmission by returning winter tourists.[4]

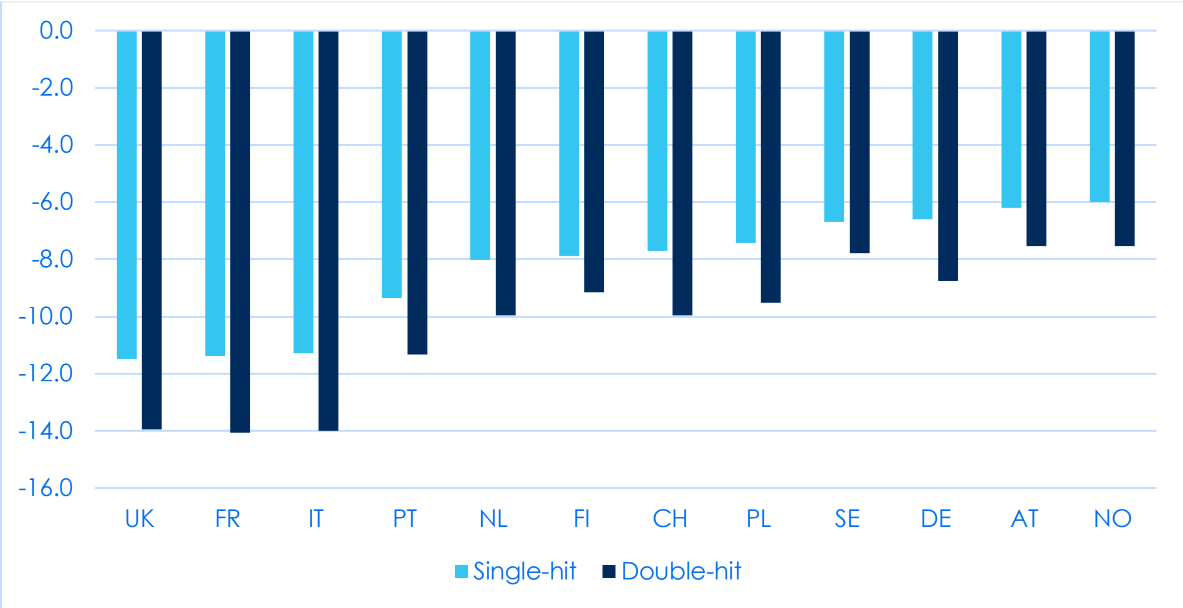
Several health factors have also come into play. **Urban areas with higher levels of air pollution**, and more extensive respiratory conditions, experienced greater exposure to severe COVID-19 infection.[5] **Disparities in access to health care** and healthcare capacities – such as the availability of hospital beds (especially intensive care facilities) and numbers of medical personnel - contributed to the geographically uneven impact.[6] Among EoRPA countries the number of doctors per 1,000 inhabitants is highest in Austria and Norway (5.2 and 4.9 respectively) and lowest in Poland and UK (2.4 and 3.0 respectively). The number of hospital beds per 1,000 inhabitants in highest in Germany and Austria (8 and 7.3) and lowest in Sweden and UK (2.1. and 2.5).[7]

There are also demographic disparities in the spread and impact of COVID-19, as **elderly people were more vulnerable to the virus**. Rural regions were particularly exposed due to a higher share of this age group, sometimes combined with a higher share of poverty and more limited access to healthcare services, due to fewer health workers, hospitals and intensive care beds.[8]

2.2 Regional socio-economic impacts

The socio-economic impact of the crisis is uneven across individual countries, regions, and cities, despite the shock's symmetric origin and global extent. EU GDP growth projections for 2020 have been revised from +1.5 percent to -7.5 percent in the Commission's latest spring 2020 Economic Forecast, with projections that the severity of the decline will be greatest in Greece, Spain, Italy and Croatia. Across EoRPA countries, the forecast fall in real GDP for 2020 (under a 'single-hit' scenario[9]) ranges from -6 percent in Norway to -11.5 percent in the UK (Figure 2). The impact on GDP would be even greater in the event of a second wave of the pandemic, with reductions in real GDP of up to 14 percent in the United Kingdom, France and Italy ('double-hit' scenario).

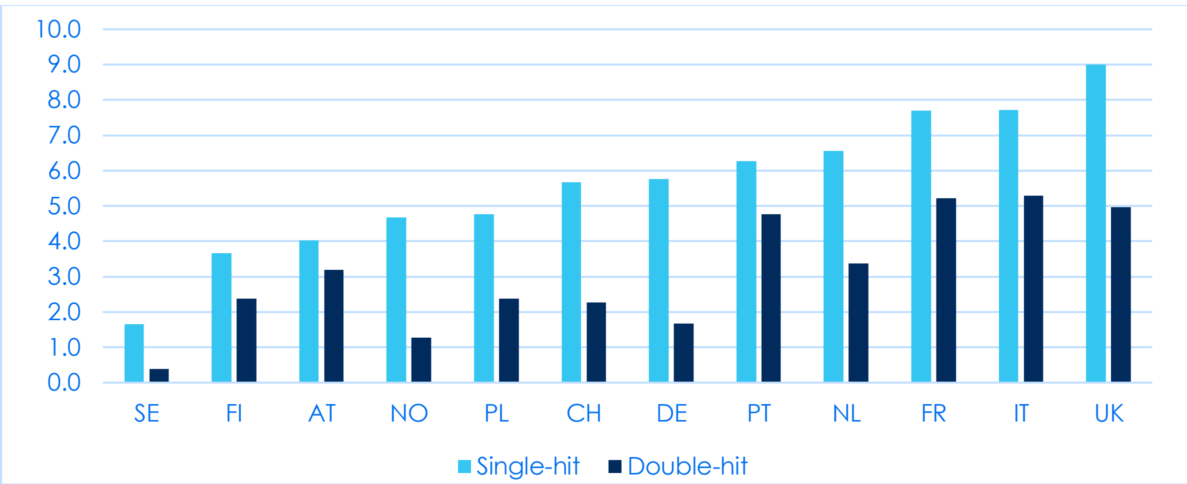
Figure 2: Forecast annual growth in real GDP, 2020 (%)



Source: OECD Economic Outlook, June 2020, https://data.oecd.org/gdp/real-gdp-forecast.htm

While national GDP is not projected to recover to pre-crisis levels for some time, most EoRPA countries hit hard in 2020 are anticipated to have a strong rebound in 2021. According to OECD forecasts, real GDP growth for 2021 (under a 'single-hit' scenario) ranges from 1.7 percent in Sweden to nine percent in the United Kingdom among EoRPA countries (Figure 3). The projected recovery in Italy and France appears comparatively robust. In a 'double-hit' scenario, the rebound will be even slower and differently distributed, with GDP growth projected to range from 0.4 percent in Sweden to 5.3 percent in Italy. Differential impacts across countries are due particularly to sectoral structures, with dependency on services and tourism related to greater impacts than for manufacturing, as well as capacities to respond.[10]

Figure 3: Forecast annual growth in real GDP, (%), 2021



Source: OECD Economic Outlook, July 2020, https://data.oecd.org/gdp/real-gdp-forecast.htm

Unemployment rate impacts are also heterogeneous. Ireland, UK, Portugal and Spain are expected to witness the highest increase in unemployment in 2020 (compared to 2019, single-hit scenario) with an increase of more than five percentage points.[11] The impact on the labour market may be difficult to reverse quickly,[12] depending on the duration of lockdowns and the containment measures kept in place (including physical distancing) as well as on the strength of the rebound in economic activity.[13] In the long-term, the impact will also depend on **how successful labour market policies are in mitigating the negative effects on vulnerable groups** (e.g. young persons, low-skilled workers, and elderly people).[14] Employment levels in 2021 are expected to recover more slowly in countries and regions that were hit harder by the pandemic and in Member States with lower GDP, located predominantly in Central and Eastern Europe.[15] According to OECD forecasts, among EoRPA countries unemployment is projected to increase further in 2021 in Italy, Switzerland and the UK.[16]

At the regional level, economies have been hit by multiple adverse shocks simultaneously. **The latter are driven both by the supply side** (e.g. reduction in work force and materials) **and the demand side** (reduction in consumption and in demand of goods and services; reduction in tourism expenditures; increase in precautionary savings).[17] **Such shocks hit regional economies symmetrically, however, the regional impacts vary depending on several factors.**[18]

The economic consequences of the crisis do not necessarily mirror the epidemiological damage caused by the pandemic, but largely depend on the economic characteristics of the region.[19]

Among the immediate regional impacts are the rises in unemployment and the number of applications for short-time work, while other economic indicators such as GDP are being revised downwards considerably. As such, regional economic impacts are still emerging, but indicative territorial effects (for different indicators) among EoRPA countries are summarized in Table 1.

Table 1: Indicators of regional socio-economic impact across EoRPA countries

EoRPA country	Regional socio-economic impact
AT	The immediate economic impact could be seen in reduction of household income. According to a survery carried out in April 2020, the largest reductions in household income during the crisis were registered in **Vorarlberg** (€920, average reduction per month) and in **Niederösterreich** (€769).[20] Forecasts on the loss of Gross Value Added as a result of COVID-19 in 2020 indicate that the regions with largest losses are **Wien** (€-8.56 billion) and **Oberösterreich** (€-5.21 billion).[21]
CH	In May, around 0.9 million employees in Switzerland were put on short-time work. Across the cantons, the percentage of the workforce on short-time work in that month has been highest in **Ticino** (33.5 percent), followed by **Neuchâtel** (29.5 percent) and **Jura** (27.6 percent).[22] The increase in unemployment from January to July 2020 compared to the same period of 2019 has been largest in canton Geneva (5.2 percent) followed by Jura (5.1 percent) and Neuchâtel (4.9 percent).[23]
DE	Federal states such as **Baden-Württemberg** (30 percent), **Bavaria** (27 percent), **Saarland** (25 percent), **Thuringia** (24 percent) and Rhineland-Palatinate (23 percent) have a high proportion of employees in particularly affected sectors. This is due, among other things, to a strong weight of "intermediate consumption and capital goods" (metal and electrical industry, chemical industry, mechanical engineering, vehicle construction). In eastern Germany, **Thuringia** (24 percent) and **Saxony** (21 percent) have an above-average proportion of employees in affected sectors.[24] In terms of short-time work and furlough schemes (*Kurzarbeit*), the most substantial increase of employees under these schemes is in **Bayern**, followed by **Nordrhein-Westfalen** and **Baden-Württemberg**.[25]
FI	The impacts of the Covid-19 on the economy and employment have been significant in all regions. The region of **Uusimaa (South)** has been one of the worst-hit regions in Finland both in terms of the number of Covid-19 cases as well as the economic impact. Unemployment (especially amongst highly educated) has risen most in comparison to the other regions. Similarly, the share of furloughs in Uusimaa was recorded to be c. 40 percent of the total figure in Finland.
FR	A comparative study by the national statistics institute (Insee) identified that **Corse** is the most economically affected region in the country, with a 35 percent decline in economic activity, especially due to the impacts on the hospitality sector. It is followed by the regions of **Auverge-Rhône-Alpes**, **Île-de-France** and **Provence-Alpes-Côte-d'Azur**, with the national average of a 29 percent decline in economic activity. The sectors most affected are construction (88 percent decline in activity), industry (43 percent), and services (39 percent). The more interior areas, where the agricultural sector is more prevalent, were less affected, while coastal areas suffered more significant impact because of the weight of the tourism sector.
IT	Most affected were employees in the manufacturing sector (59.6 percent) and the services (26.7 percent). Out of 100 employees, 56 of affected ones live in the north, 20 in the centre and 24 in the south of Italy. The **Marche** region, which has a strong manufacturing specialisation, has been the region with the highest share of workers affected by the containment measures (43 percent), compared to the Italian average of 34.8 percent. It is followed by **Veneto** (39.8 percent), **Piedmont** (37.8 percent), **Lombardy** (37.5 percent) and **Emilia Romagna** (37.4 percent).[26]

NL	The regional impact in the Netherlands is driven mostly by sectoral structure. The hardest hit regions in terms of value added are projected to be **North Brabant, Flevoland, Zeeland and Limburg**. Their economic value added are estimated to reduce by over nine percentage points in 2020 in the worst scenario. In terms of absolute reductions, peripheral regions in the northern Netherlands will have the largest economic declines, given their reliance on tourism and hospitality.
NO	The regional socioeconomic impact of COVID-19 is largely a consequence of sectoral concentrations. The most immediate *regional* impact can be seen in unemployment claimant counts and applications for wage compensation/furlough. For unemployment claims following redundancy during the crisis, **Oslo** records above national average figure (3.7 percent), with the largest absolute number in **Viken**. Additonally, some 14.4 percent of the workforce had claimed *furlough* payments, with the highest rate in Oslo (16.2 percent) and the higest absolute number in Viken (89,319).
PL	**The most industrialised regions** witnessed strongest outbreaks and have been hardest hit by lockdown measures. Among those, **Śląskie**, the country's centre of coal mining and steel making, experience the worse impact. **Less developed rural or peripheral regions (largely in the north and east)** escaped the worst COVID-19 outbreaks but they have experienced substantial difficulties in adapting to lockdown measures, especially due to more limited access to broadband and limited internet use. **Border regions face specific challenges,** linked to limited access to service after the closure of borders and in some cases to reliance on foreign workers.
PT	Estimations of the regional socio-economic impact are based on **increase in unemployment** and **decrease** in **value of purchases** or **withdraws** made via automatic payment terminals as well as **in job placements in employment centres**. Across these indicators, regions that appear significantly hard hit are **Algarve and** the **Metropolitan Area of Lisbon** (as per all four indicators), the Autonomous Region of the **Azores** (as per value of national withdrawals from ATMs), and **Porto** and **Baixo Alentejo** (as per value of national purchases).
SE	Preliminary data indicate that **urban areas** and especially **larger cities** such as Stockholm, as well as the services sector have been particularly affected.
UK	Research suggest that the more affluent **South East of England and London** face the greatest **immediate impact** from the crisis and subsequent downturn. However, as recovery will depend on local resilience and on pre-crisis levels of economic output and employment, the areas where the longer-term impact will be most severe differ. These include parts of **Yorkshire and the Humber** in England, **as well as London**.

Source: EoRPA Country Reports

The difference in the severity of the health outbreak and the stringency of the containment measures influence the gravity of the socio-economic impact across territories. Other factors also played an important part such as economic structure and specialisation, as well as the discretionary policy responses that were put in place, including their timing and size.

2.2.1 *Sectoral specialisation*

The economic consequences of the pandemic have been more harmful for specific sectors, especially those based on economic activities that necessitate face-to-face interaction (such as services, tourism, hospitality, cultural & creative sectors) and movement (such as travel & transport). Sectors that are integrated in global value chains (such as manufacturing) and particularly in specialised value chains (such as automotive production) were significantly hit. The different weight that the pandemic had across sectors translated into a differentiated impact on national and regional economies, depending on their sectoral specialisation (see Box 1).

- **Tourism, automotive and textile industries** record least favourable confidence indictors as shocks are expected in both demand and supply factors.[27] The **entertainment, hospitality and transport sectors** are estimated to experience the **largest losses in real Gross Value Added in 2020**, ranging from 20 to 40 percent compared to 2019 levels.[28]

- Countries with high shares of **tourism** employment such as Spain (13.5 percent), Ireland (10.3 percent), Greece (10.0 percent), and Portugal (9.8 percent)[29] are particularly exposed to the crisis provoked in the tourism economy. In most countries, costal locations and islands, tourism-dependent (large) cities and mountainous areas, are particularly vulnerable to the impacts of the pandemic.[30] Overall, projections estimate that tourism arrivals in 2020 will be between a third and a half of 2019 levels, potentially falling to 80 percent of 2019 levels in the event of a 'second wave'.[31]

- **Structurally weak regions**, such as **rural and peripheral regions**, which were already struggling with slower growth rates before the crisis, are among the highly vulnerable areas.[32]

Box 1: Effects of sectoral specialisation on regional exposure – the case of the Netherlands

In the Netherlands, the Dutch provinces with a relatively high proportion of activity in the most affected sectors, such as tourism and hospitality, horticulture and heavy industry, include **North Brabant, Flevoland, Zeeland and Limburg**. The worst hit regions are often the ones that rely on industrial production (e.g. Delfzijl in the north, North Limburg and Zeeland-Flanders in the south), whereas the least hit regions have a relatively large health sector (Groningen city region, Arnhem/Nijmegen). Industry and trade sectors usually have a larger weight in the south, hence the larger sensitivity in many southern regions.

Figure 4: Economic sensitivity to COVID-19 measures (dark = most sensitive; light = least sensitive), the Netherlands

Source: EoRPA Country Reports 2020 – the Netherlands

2.2.2 *Share of SMEs*

Economies based on small and micro enterprises are also asymmetrically affected by the crisis. SMEs and microenterprises are particularly vulnerable to the containment measures due to their lower capacity to cover the costs that they incur. Additionally, the sectors in which the crisis has had most the impact are dominated by small enterprises.[33] At national level, this means that countries where small firms contribute most to Gross Value Added, such as Spain and Belgium, are expected to experience more negative consequences than countries like Poland, the UK and Germany, which have the lowest ratio of small companies in their economies. Across European regions, the share of employment in firms with fewer than 10 employees ranges from 16 percent to 97 percent, [34]; regions with highest share of small-firm employment are mostly located in France and in Southern and Eastern Europe.[35]

2.2.3 *National resilience*

Government capacity to offset the costs of containment measures and the speed/scale of financial support influenced the immediate socio-economic impact. A snapshot of the initial discretionary fiscal measures in several EoRPA countries (see Table 2) indicates two particular trends: fiscal measures as a percentage of GDP are significantly larger in countries such as Germany and UK in comparison with their southern European counterparts such as Italy and Portugal; and governments with more limited fiscal capacity have preferred to use more liquidity and guarantee measures that the private sector will need to return rather than direct government spending.

Table 2: Selection of discretionary 2020 fiscal measures adopted in response to Coronavirus, % of 2019 GDP[36]

Country	Immediate fiscal impulse	Deferral	Other liquidity /guarantee	Last update
Germany	8.3%	7.3%	24.3%	04/08/2020
UK	8.0%	2.3%	15.40%	16/07/2020
France	4.4%	8.7%	14.2%	18/06/2020
Netherlands	3.7%	7.9%	3.4%	27/05/2020
Italy	3.4%	13.2%	32.1%	22/06/2020
Portugal	2.5%	11.1%	5.5%	04/05/2020

Source: Bruegel, 16 July, https://www.bruegel.org/publications/datasets/covid-national-dataset/

More specifically, measures under the adopted economic packages have included the following.

- **Non-repayable grants**, such as the "hardship fund" (Austria) or "solidarity fund" (France) to support businesses on the basis of their size, annual turnover and drop in turnover due to COVID-19. One-time allowances or benefits for businesses that had to shut down during lock-down period were also paid in several countries (e.g. the Netherlands and Italy).

- **(Bridging) loans and credit guarantees** targeted in most cases at SMEs and hard hit/critical economic sectors including tourism, culture, sports, hospitality, entertainment, automotive industry, and the agricultural sector (sectors vary by country). In some countries, this support was channelled through regional development agencies, for instance in the Netherlands, in which both the central and regional governments are represented.

- **Short-term tax deferrals** (in VAT, social security contributions, corporation taxes) for firms in the most affected sectors such as tourism, transport, catering, entertainment, sport and education.

- **Income supplements (to social minimum) / wage subsidies**

- **Short-term employment schemes**

- **Administrative burden reduction**

As a more territorially sensitive measure, a number of national governments made transfers to regional and local level authorities to compensate them for lost revenues and to increase their capacity to respond to the increasing budgetary needs (e.g. France, Germany, Norway and UK).

2.2.4 *Social dimension*

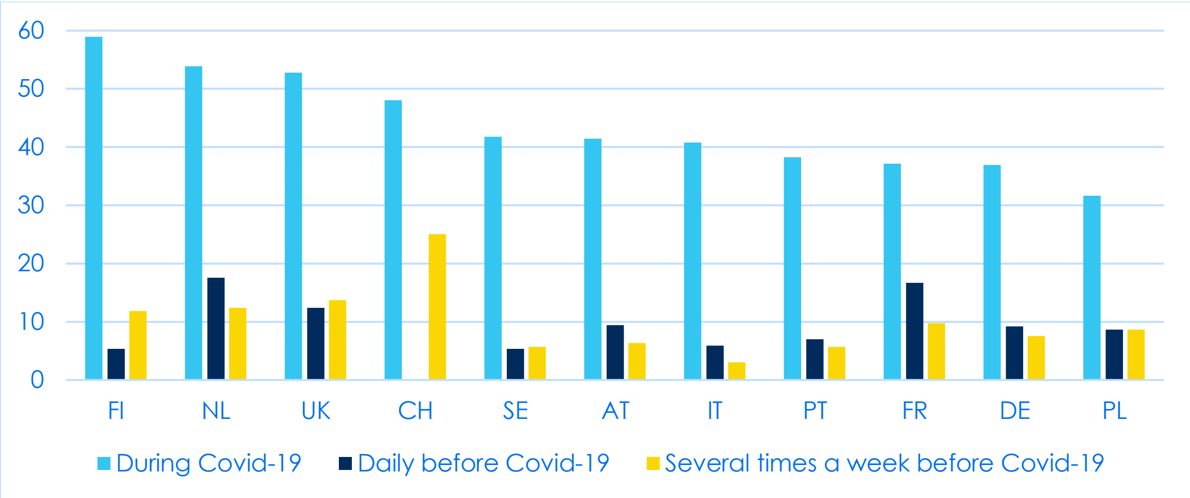
The economic crisis has been more harmful to people at risk of poverty and social exclusion. Vulnerable groups have limited flexibility to cope with income shocks and are more often employed in sectors where remote working is difficult, leading to a higher number of layoffs. Overall, poverty and social exclusion is higher in Central and Eastern Europe, and especially in rural areas. By contrast, in Northern and Western Europe, this risk is more pronounced in urban areas.

Young people (aged 20 to 29) and women have been also disproportionately affected by the economic consequences of the pandemic. They are more likely to be employed in the sectors most affected by the crisis, such as tourism and hospitality, and often have more lower-skilled/unstable/part time jobs[37]. Due to the rise in part-time working among young people after the global financial crisis, young people in Greece, Italy, Ireland and Spain are now especially vulnerable.[38]

2.2.5 *Teleworking and high-speed broadband*

The increase in unemployment has been less significant for remote-friendly occupations during the crisis.[39] Research by Statistics Norway has found that the share of jobs that can be performed remotely varies from 1.7 percent of unskilled occupations to 66.8 percent of managers.[40] Remote-friendly activities include most professional service activities (research, advertising, consultancy, legal, education, etc.) while, by contrast, only a small fraction of plant and machine operators can work from home.[41] Remote-friendly jobs are not only sector specific but also geographically sensitive. Large cities and capital regions appear to benefit mostly from this as they offer, in most cases, the highest potential for remote working within countries.[42] Across EoRPA partners, the frequency of working from home due to the pandemic has increased significantly, albeit to a different degree, as indicated by survey data collected in the EU and UK (Figure 5).

Figure 5: Frequency of work from home before the outbreak and as a result of COVID-19



Source: Eurofound Survey: Living, working and Covid-19; e-survey active between 9-30 April, https://bit.ly/3hWREW3 and https://bit.ly/300L4aT
Note: Figures for Switzerland show percentage of workers working from home at least half a day per week before and during the crisis. Comparable figures for Norway not available.

The extent to which jobs can be performed remotely depends on the nature of the occupation, but also the available infrastructure, primarily high-speed broadband. Most EoRPA countries have at least 90 percent of their households with broadband access. Italy, France, Poland and Portugal show lower levels between 84 and 78 percent.[43] Within countries, rural areas often have a lower percentage of the population with broadband access, limiting the scope for teleworking in these areas.[44]

3 POLICY RESPONSES TO COVID-19 – ECONOMIC RECOVERY PLANS

3.1 Emerging policy thinking on post-crisis recovery

The COVID-19 pandemic has resulted in profound impacts on economic and social life. There is no anticipated eventual return to normality, as COVID-19 and the socio-economic crisis have prompted wider reflection of the prevailing policy orthodoxies and economic and social systems.[45] **Several fragilities have been exposed, related to healthcare services, the food chain, the environment, and the labour market**. More generally, the COVID-19 crisis has been referred to as a "crisis of capitalism", heightening inequalities and weaknesses in the economic system.[46] Rethinking and experimentation are now being debated to assure more social safety and economic recovery.

Discourse around the COVID-19 crisis has been presented in some circles as a potential driver of "new economic and intellectual beginnings",[47] differentiating it from previous crises. For example, while the 2008 financial crisis and recession affected less productive and competitive businesses, the COVID-19 crisis has been more indiscriminate in its impact, leading to the decline of many successful businesses due to the constraints of lockdown, resulting in major increases in unemployment and bankruptcy.[48] It has been argued that a different response is needed to tackle its effects, one that can reach across different sectors and even reshape societal foundations.[46] Besides 'survival', **systemic resilience may require 'improvement of the system' by taking advantage of revealed opportunities,**[49] such as more digitalisation of services, addressing climate change more effectively, and making supply chains more viable, resilient and agile.[50]

3.1.1 *Building greater economic resilience*

The impact of the pandemic on services and tourism has made some economies particularly vulnerable. Portugal, Italy and Greece, as well as winter-tourism regions in Scandinavia, are expected to suffer substantial losses in the tourism and hospitality industry.[51] **Governments and tourism agencies have thus begun promoting alternatives for tourism workers and for boosting the industry in COVID-19 times**. One option has been to divert tourism industry workers to other sectors that are in need of labour, particularly the agricultural sector.[52] Another has been to promote alternatives to conventional tourism, with 'staycations'[53] – i.e. travelling domestically – or more isolated forms of tourism (e.g. remote location or through mobile units, like campervans).[54] Other opportunities may rely on digitalisation, with virtual tourism.[55] Adaptation is nonetheless a vital concern for post-crisis recovery which may require **a focus on more sustainable, responsible, and community-centred forms of tourism,** reorienting development towards the rights and interests of local communities.[56]

Economic resilience has been specifically connected to strategic autonomy. In EU debates, the global dependencies on strategic sectors have prompted discussion of greater self-sufficiency, economic diversity, and a 'smarter' consideration of EU interests in globalisation.[57] At national level, this has meant prioritising investment. In the UK, an Acceleration Unit, together with £360 million of funding, has been launched to promote transport infrastructure projects to 'build back better' after the crisis,[58] via quick spending and job creation. The Dutch government has supported agricultural and horticultural companies through a credit guarantee scheme (70 percent of a loan, up to €1.5 million) while Italy has announced an injection of around €25 billion for key sectors like tourism and logistics and transportation.

Another concern in the policy debate is the impact of the crisis on international production. The pandemic may be accelerating recent trends including **a transformation in global**

production towards re-shoring, i.e. transferring a business operation that was moved overseas back to domestic production.[59] Anxieties related to shortages of (healthcare) supplies, the failure of local supply chains, and travelling and broader restrictions due to COVID-19 have given reshoring significant momentum. However, according to an OECD research on building more resilient production networks[60], **there is no evidence suggesting that economies fared better during lockdowns in the absence of global value chains**. While there might be additional vulnerabilities associated with global value chains where international trade is disrupted, domestic supplies are equally affected in a lockdown. Re-nationalising global supply chains may, instead of strengthening resilience, further isolate economies and lead to further contraction of GDP.[60] Nonetheless, moving production closer to consumers adds to the argument of promoting more sustainable processes and services.

3.1.2 Economy and Social Security

There has been a **greater demand for further long-term social security measures that can ameliorate the effects of the current crisis** but also avoid such profound impacts on workers and businesses in the future. One of the proposal is a **Universal Basic Income (UBI)**, a periodic payment to all citizens of a sufficient income to cover basic needs (at or above the poverty line), and without the need for any work requirement to be met.[61] The most prominent pre-COVID-19 UBI trial was undertaken in Finland in 2016 and was generally considered to have had favourable results, albeit with no foreseeable continuation nor expansion (see Box 2). The coincidental publication of the final report of the trial in 2020, amid rising unemployment due to the COVID-19 pandemic, has renewed interest in UBI.[62]

According to a recent survey, 71 percent of Europeans now support a UBI.[63] However, **despite UBI figuring more prominently in the public debate, recent basic income measures have been targeted at specific groups, rather than being universally**. In Spain, for example, a basic income scheme introduced as part of the pandemic response was aimed at extremely poor households and vulnerable groups.[64] UN discourse also considers UBI in a temporary and restricted manner in the post-crisis context, arguing for its application specifically with the most vulnerable segments of the population and for a limited period of time.[65]

Box 2: The Finnish Universal Basic Income trial

Finland's UBI pilot was carried out in 2017-2018 and was managed by the country's social insurance agency, Kela. 2000 people, aged 25 to 58, were randomly selected from a pool of 175,000 unemployed Finns to participate in the pilot. The participants received a monthly government stipend of €560 for a period of two years, regardless of the individuals' employment status or salary, with a view to giving them more autonomy and freedom in their job choices.

In total, this UBI test cost the Finnish Government around €19 million. The initial aim was to get people back into the workforce, given the high unemployment rate at the time (eight percent). It also served to review alternatives to responding to the changing pressures of the labour market and nature of work.

An evaluation of the effectiveness of the Finnish UBI trial was published in 2020. Outcomes were compared against the Finns on unemployment benefits. Results show significant improvements in the participants' healthcare, financial and mental well-being. There was also a slight increase in employment with recipients working on average six more days than the control group between November 2017 and October 2018. The study also showed a general improvement of the participants' confidence, with them starting new ventures and taking on voluntary work. However, the overall employment impact was found to be limited.

Some caution regarding the results is warranted, as the impacts could have been affected by the implementation of the so-called 'active model' during the UBI pilot (in 2018-2019), which entailed cuts in unemployment support if an unemployed did not demonstrate sufficient activity. According to Kela, it is difficult to separate the (employment and other) impacts of the UBI pilot from those of the active model.[66]

Source: Gent, E. (2020)

3.1.3 Opportunities of digitalisation

With the need for quarantine constraints, maintaining services at a distance became of paramount importance. **The coronavirus pandemic has thus emphasised the significance of promoting the digitalisation of services and the diffusion of broadband across the national territories, tackling digital divides.**[67] There has been increasing use of digital tools for the continuity of services, namely in digital government, telemedicine, mass online learning and remote working. Examples include, the telemedicine solution Pro-Plus in Poland which has been developed as a response to COVID-19 to monitor patients in quarantine and, in Portugal, schools have not only adapted to online learning but, in more remote places, radio stations have provided the way for classes to be delivered to students.

Discourse is also tending towards remote working. Initially an essential demand for those businesses and workers to be able to continue their activities and avoid unemployment, remote working may become the norm in some businesses, occupations and sectors. The current argument is that this will be a lasting working model even after the end of the pandemic.[68] Despite the potential consequences for commercial rent and other logistical constraints, studies claim the benefits of remote working could outweigh the potential challenges. Studies have shown that remote working can improve employee productivity and satisfaction. The flexibility enabled by working remotely can, in turn, create more inclusive workplaces, for example for those employees with caring responsibilities. There are, nonetheless, other inclusion constraints that are associated with remote working, such as access to broadband. **The importance of bridging the digital divide is further emphasised** and is a priority in many countries[69] given that the impact of the pandemic has made both internet access and digital literacy a more pressing development matter, even being argued as a basic need.[70]

In addition to remote working, the pandemic has shown that there may be **further opportunities for workplace innovation and labour-replacing automation**. Despite the implications for inclusivity and inequality, the pandemic appears to be accelerating technological adoption.[71]

3.1.4 *Rethinking climate adaptation and sustainability*

The pandemic has heightened the interest in climate change adaptation and in sustainability, primarily associated with health and resilience. Climate change is seen as having a far greater impact over the long term than the COVID-19 pandemic, with the current situation testing the preparedness and resilience of society to such threats. Environmental crises can also increase the likelihood and impact of future infectious diseases, driving biodiversity loss, the decline of global health and increasing the risk of zoonotic viruses.[72] Such viruses are especially linked to current more intensive global agricultural practices and animal rearing, leading to demands for sustainable and safe local food systems.[73]

Arguments have thus been made regarding the opportunity to align recovery programmes, change behaviours and trigger investments in line with climate objectives, namely in integrating sustainability and supporting a transition toward carbon neutrality.[74] Research suggests that current COVID-19 recovery programmes have largely disregarded the broader sustainability and resilience impacts of their actions.[75] However, Germany's 'Package for the Future' foresees investment for green infrastructure and R&D in the energy and transport sectors and France has attached green conditions to financial support. On a larger scale, the 'Next Generation EU' recovery package includes significant funding for green initiatives, and the European Green Deal makes plans for carbon neutrality and a smoother transition toward the green economy with the Just Transition Mechanism.

3.1.5 *Inclusion and community-building in a time of social distancing and accentuated disparities*

Given the increased visibility of vulnerable groups in society as a result of the COVID-19 pandemic, and the disproportionate way in which the pandemic has affected certain segments, **there has been a reinforced commitment to addressing inequality along various lines (e.g. income, ethnicity, gender)**. For example, the COVID-19 crisis has been called a 'skills-biased crisis', with low-income workers with low skills and education suffering the brunt of the impact because they either could not transition to remote work or were furloughed/deemed redundant. Similarly, in a crisis where digital literacy has become important, older workers that are less digitally knowledgeable have struggled.

The disruption of social ties by the pandemic has driven the emergence of various community-led initiatives that have supported services and facilitated quicker recovery. One post-crisis approach that has figured prominently in policy thinking has been 'community wealth-building',[76] i.e. bringing supply chains back to the communities, for example, by manufacturing locally. Other elements emerging in current post-crisis policy thinking relate to an increasing interest of citizens to engage in policymaking. E-democracy tools are emerging as vehicles for organisations and communities to have their voices heard in key choices around coronavirus recovery.[77]

3.2 National recovery plans

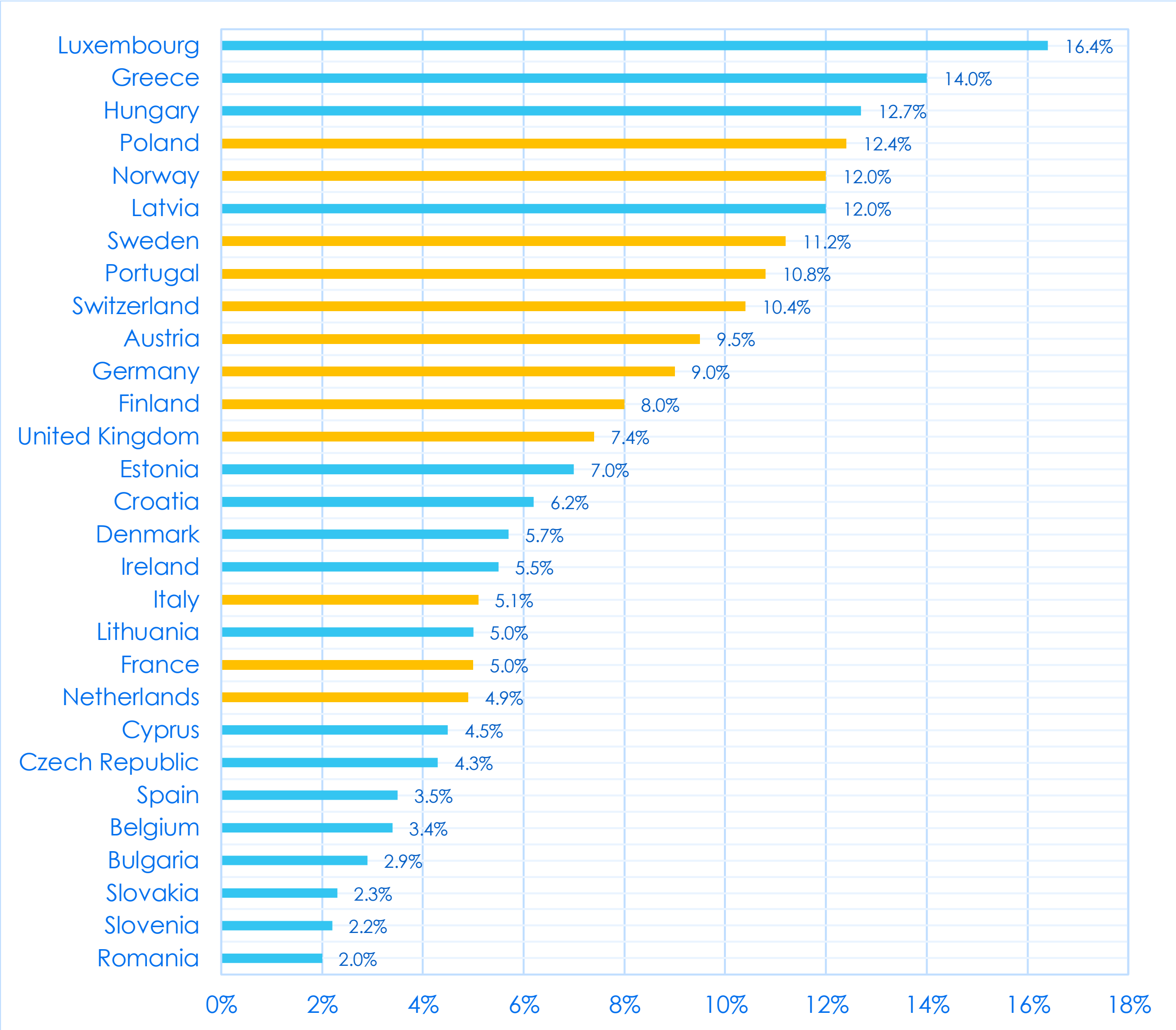
The main policy responses to the pandemic have generally focused on fiscal measures, labour market and social security adaptation, and sectoral support (e.g. tourism and health). Expenditure on COVID-19 recovery packages vary significantly across EoRPA countries and Europe more generally (see Figure 6). Government support ranges from two percent of GDP in Romania to over 16 percent in Luxembourg, with an average figure of 8.8 percent for EoRPA countries.

- **Fiscal and business measures** have figured prominently in national recovery plans across all countries to address the socio-economic impact of the crisis. Measures include: an extension of deadlines and deferral of tax payments (e.g. Netherlands, UK); waiving or deferring employer and self-employed social security contributions (e.g. Portugal, Sweden, Switzerland); and provision of tax concessions for health-related workers (e.g. Romania).[78] General business support measures include, for example, the low-cost loans supported by a UK Government guarantee offered through the national promotion bank (British Business Bank). These consist of a business rates support and grants, a business rescue moratorium and an investment fund for high growth companies.

- **Labour market and social security measures have focused on job retention** to save viable jobs but also to keep workers employed. Examples include Germany's *Kurzarbeit* (short-term work) and France's *Activité partielle* (Partial Activity), which have directly subsidised hours not worked. Similarly, the *NOW* (*Noodmaatregel Overbrugging Werkgelegenheid* – Emergency Bridging Measure for Sustained Employment) programmes in the Netherlands are supporting businesses to complement wage costs in the case of turnover loss, to protect the earnings of workers.[79] The UK also introduced an income support scheme for self-employed people. Wage subsidies for furloughed and reduced working time workers were also provided in most countries. In almost every EoRPA country where the data was available, employee applications for job retention programmes were acceded (see Figure 7). **National measures also promoted**

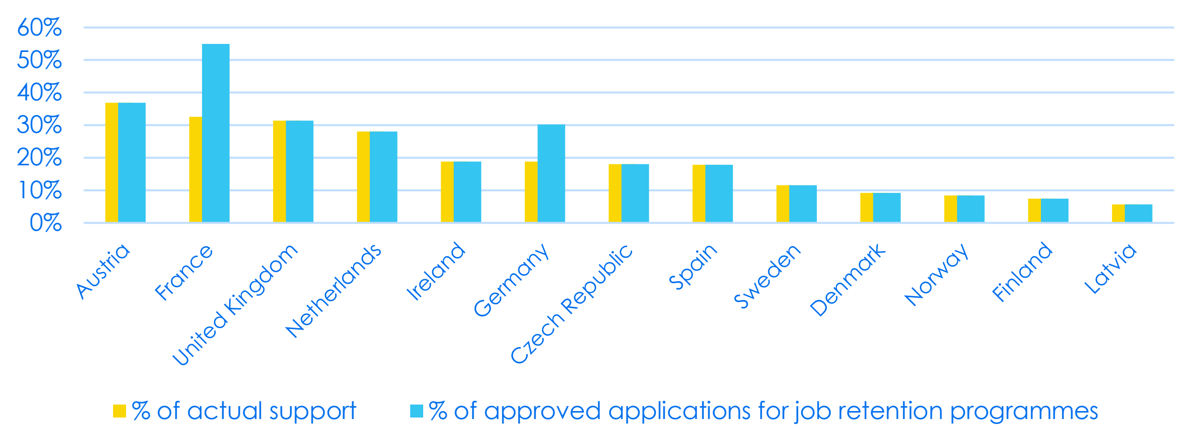
teleworking: in Italy, for example, companies and employees could arrange teleworking without prior and written agreement and at a place of choice. In Hungary, employers were able to introduce teleworking without employee consent. Many countries have also expanded sickness benefits to self-employed workers (e.g. Portugal, Latvia, Denmark).[80]

Figure 6: Approximate national expenditure on coronavirus recovery packages in Europe (EoRPA members highlighted) - aid as % of GDP



Source: *CNN Business (2020)[81]; Deloitte (2020)[82]; IMF (2020)[83]; Leahy (2020)[84]; Statista (2020)[85].*

Figure 7: Job retention programmes (as % of employees)



Source: OECD (2020)[86]

- **Sectoral support.** The sectoral impacts of the crisis have led to support programmes, temporary guarantees and compensation schemes for tourism (e.g. France, Luxembourg, Portugal, Netherlands, Spain, Hungary, UK), culture (e.g. Czech Republic, Hungary, France, Luxembourg, Netherlands, Spain, UK), agriculture (e.g. Czech Republic, Netherlands, Spain, Romania, , UK - Scotland), the hospitality sector (UK), the third sector (UK – Scotland), seafood and fisheries (UK – Scotland) and transport (e.g. Czech Republic, Switzerland, France, Romania, UK). Other country-specific support has been allocated to sectors as disparate as IT and construction (e.g. Romania), commerce and the retail sector (e.g. Spain, UK - England), sports (e.g. Sweden), oil (Norway) and the legal sector (e.g. Luxembourg). In the UK, there were also loans for R&D intensive SMEs, and through the Pivotal Enterprise Resilience Fund (PERF) – launched in Scotland – for SMEs in sectors considered vital to the economy. In general, support has been designed with the aim of keeping companies going and compensating worker salaries in these sectors. However, it has also helped these sectors in adapting to new models of working and developing and implementing innovations.

Partially, the national fiscal responses have been enabled by the Commission's **Temporary Framework for State aid,** adopted in March and amended in April 2020**.** The latter provided more flexibility to national governments to improve the liquidity of firms (through grants, guarantee schemes, interest rate subsidies, etc.) and allowed them to introduce **further five types of support** – three relating to COVID-19 relevant investments and provisions for targeted tax deferrals and targeted wage subsidies.[87]

By September 2020, several budgetary instruments had been approved under the Temporary Framework for State aid across EoRPA countries:[88]

- under Art 107 (2)(b) TFEU (compensation for exceptional occurrences): FR, NO;
- 'COVID-19 de minimis' capped at €800,000 (incl. direct grants, loans, guarantee schemes, interest subsidies, etc.): DE, FR, IT, NL, PT, UK;
- guarantees (e.g. for SMEs, tourism-related businesses, airlines, etc.): DE, FR, IT, NO, PT, UK;
- interest rate subsidy: DE, UK; and
- support through credit institutions: DE, PT, UK, SE, PL.

A more detailed listing of the measures approved under the Commission's Temporary Framework for State aid across EoRPA countries is appended to this paper.

4 REGIONAL POLICY RESPONSES TO COVID-19 RECOVERY

4.1 Role of regional policies in economic restart and recovery

Recognising the unequal territorial impacts of the pandemic, emerging regional policy research argues that a comprehensive territorial analysis is necessary to construct spatially tailored approaches to recovery at all levels of government.[89] At the time of writing, such territorial or regional understanding is evolving at different speed across countries; one example is Switzerland, where the regional and municipal economic effects of the crisis have been continuously monitored and published by *regiosuisse*.[90]At the same time, based on available data, measures adopted to support the short to medium-term economic restart appear to have a more regional or territorial dimension compared to the emergency support at the peak of the crisis. This section explores in more detail the sub-national dimensions of the short to medium term economic restart and recovery.

4.1.1 *Regionally differentiated investment support*

A new policy phase has been initiated in most countries following the easing of infection control measures and the adoption of economic measures to increase economic activity (investment) and to help employees return to work. In part, such support has been channelled through regional policy funds, under both domestic and EU regional policies (see Box 3 and Box 4), as well as other territorially differentiated support. Regional variation in support measures can be identified in many European countries. In some cases, subnational financing has been provided by transfers from the national level, according to criteria that favour certain territories. For example, in **Norway**, allocations for business development have been made by the Ministry of Local Government and Modernisation to counties and municipalities based on criteria of peripherality and total population size, and adjusted by unemployment rate, which prioritises municipalities that have been hit hard by the crisis.[91]

Box 3: Regional policy responses to COVID-19 – Germany

An additional €500 million of federal funds has been allocated to the main regional policy instrument, the Joint Task for the Improvement of the Regional Economic Structure (GRW), in 2020-21 (€250 million annually).[92] *Länder* are also allocating additional funds in order to be able to draw down federal resources, as projects are financed 50:50 by federal and *Land* authorities.

The following changes in GRW rules also came into force in July 2020, with a view to facilitating take-up of available funds:

- until 31 December 2021, business investment projects will be eligible either (a) if annual total investment is at least 25 percent (usually: 50 percent) higher than the average level of annual income set off against tax in the previous three years or (b) if the project increases the number of permanent jobs in the business operation by at least five percent (usually: 10 percent);
- until 31 December 2023, the aid ceiling for business-oriented infrastructure will be raised to 95 percent (from 90 percent), so that the local authorities' contribution is halved;
- project completion deadlines will be treated more flexibly, in order to address delays due to the COVID-19 crisis;
- environmental protection investments that go above and beyond existing German and European norms will no longer be subject to capping on the basis of EU regional aid ceilings, and SMEs will also be eligible for this type of funding.

Source: EoRPA Country Report 2020 – Germany

At the same time, a number of EU Member States, including both smaller and larger beneficiaries of Cohesion Policy, made use of the flexibility introduced with the EU Coronavirus Response Investment Initiatives (CRII and CRII+), and stimulated regional responses funded through these resources (such as in the Czech Republic, Hungary, Poland, Romania, Italy, Denmark, Finland, the Netherlands and the UK).

One of the main challenges, **when relying on EU Cohesion Policy funding** to respond to the diverse impacts of the pandemic, **has been the limited availability of resources**. In many countries and regions, especially those that are smaller beneficiaries of Cohesion Policy, the 2014-20 **programme resources have been largely committed**. This has been the case, for instance, in Finland or in the Netherlands. Funding therefore appears to lack, in some cases, a strategic approach, as it is used largely to fill gaps where national support has fallen short. At the same time, **due to slower absorption**, some regions had **larger availability of uncommitted funds** that they could re-programme (e.g. in southern Italy).

Box 4: Regional policy responses to COVID-19 – Poland

As part of the policy response in Poland, regional governments have the flexibility to temporarily shift some EU funds from Regional Operational Programmes from other purposes to anti-virus investments, and the Ministry of Development Funds and Regional Policy, in consultation with the Ministry of Finance, issues approvals for this when needed. The Polish government can also give consent to the involvement of state budget funds for this type of project. There are several examples of EU-supported measures to strengthen regional policy responses to COVID-19 in Poland, including:

- PLN 2.6 billion[93] will be spent from EU funds to finance the salaries and contributions of employees of companies that have declined turnover, estimated to save almost 500,000 jobs;
- PLN 1 billion from EU funds (ESF) to support social welfare homes (DPS) and other care institutions can be allocated by regional governments; and
- PLN 180 million of EU support (ERDF) for the purchase of equipment for distance learning.

Source: EoRPA Country Report 2020 – Poland

Another potential issue has been the extent to which Cohesion Policy funds were available in the regions that were most in need and the consequences of diverting funds from one region or priority to another. In many countries, the health crisis first hit some of the most advanced regions, for instance Lombardy or Emilia Romagna in **Italy**, which are normally smaller beneficiaries of EU funding compared to less developed regions. The flexibility provided by the European Commission allowed the transfer of planned investments from structurally less developed regions to more developed ones and it is yet to see to what extent such transfers were made. Equally important has been the **re-programming of investments in terms of priorities**. For instance, in **the Netherlands**, the labour market mismatch priority, which can be accessed by the four large cities in West Netherlands, has been in high demand during the pandemic and started using funds that were initially reserved for low-carbon projects.[94] Such cases, which are not limited to the Netherlands, have raised questions whether the management of the crisis has been at the expense of some green priorities and whether Cohesion Policy is the right EU tool to address crises.

4.1.2 Regional policy support for business adaptation in COVID-19 circumstances

Businesses had to adapt their operations and services quickly to the new and rapidly changing circumstances of the pandemic. The latter resulted in upheaval affecting business structures, routines, and capabilities. The crisis changed customers' needs and in doing so created opportunities for businesses to solve new problems and establish new directions for their firms.[95]

Several nationwide measures were adopted to support businesses in adapting to crisis events, including non-repayable grants, loans, differed tax payments, and short-time work schemes.

In addition, regional policy measures were employed for such purposes, responding to place-specific needs. They included both **soft measures in the form of coaching and advice**, and **project investment support, including the adjustment of already ongoing investments**.

Box 5: Examples of business adaptation measures

In **Switzerland** measures included:

- **Specific Regional Innovation Systems (RIS) coaching offers**. Since the lockdown in March 2020, the six Swiss RIS have focused their coaching programmes entirely on coping with the COVID-19 crisis. A central issue is securing liquidity for SMEs and start-ups. The innovation consultants also support companies in their efforts to use the crisis as an opportunity for process optimisation and for transformation and innovation projects.[96]

- **Support as part of ongoing and newly launched New Regional Policy (NRP) projects**. Several NRP projects have contributed to adapting to the consequences of the crisis. One example is the TalentisLAB project, which launched special coaching and interactive online conferences at short notice to help tourism stakeholders in the Jura arch (north-west Switzerland) tackle the new challenges.[97]

In **Denmark,** measures included **adjusting or scaling ongoing business activities.** The Danish Executive Board for Business Development and Growth launched a call in April for applications targeting operators of ongoing business development projects. The purpose was to allow adjusting or scaling ongoing activities to help Danish companies through the COVID-19 crisis. The call had a total budget of up to DKK 114.7 million[98] (of which DKK 30 million was from the domestic de-centralised business development funds, DKK 53.9 million from the ESF and DKK 30.8 million from the ERDF).

Sources: EoRPA Country Reports 2020 – Switzerland and Denmark

4.1.3 The regional role in recovery plans

In several cases, the regional level has played an important role in the preparation and/or implementation of the regional and national recovery plans - for instance, in **Finland** and **France**, which both have a long tradition in regional planning and well established links between national and regional administrative bodies. Involving these bodies in the regional recovery plans may also facilitate synergies with EU Cohesion Policy, for which they are also responsible. Moreover, the Finnish and French recovery plans emphasise EU key objectives, such as climate actions, sustainability and digitalisation.

The **regional dimension of the recovery plans is also expected to be further evidenced in those countries where regional policy is largely financed by Cohesion Policy**, such as Portugal or Poland. In these cases, it is likely that regional recovery needs will be integrated in the development of the Operational Programmes for 2021-27. Given the complexity entailed in the ambitious EU dual green-digital transformation, **an important aspect would be the regional institutional capacity** for implementation and the time needed to strengthen it.

4.2 The implications for regional policy in the medium to long term recovery

The initial territorial implications of the pandemic were largely unacknowledged as the most immediate responses have been sectoral, set by national governments. At the same time, the crisis put the local and regional authorities who had to implement nation-wide measures on the front line and challenged the centralisation of powers, for example in the healthcare. This section explores how the medium to long term recovery strategies from the pandemic and associated crisis are likely to have implications for regional policy.

4.2.1 Adapting pre-COVID-19 regional policy priorities to post-COVID-19 lessons and effects?

i Territorial focus and sectoral prioritisation

One of the likely implications of the pandemic is that some territories or priorities may receive stronger regional policy support, compared to pre-COVID-19 times (Box 6). In some cases, the pandemic hit hardest more advanced and structurally stronger regions. In Norway, the far northern areas are facing structural issues including the age dependency ratio and a lack of working age people with the suitable skills, but these areas have not been especially hard hit by the crisis so far.[99] At the same time, those areas hardest hit initially are not necessarily the most vulnerable places in the long run. EoRPA Country Reprots from UK and the Netherlands indicate a potential increase of regional disparities, with structurally weak regions estoimated to suffer longer the consequeces of the pandemic.

It remains to be seen whether new economically disadvantaged places will emerge as a result of the long-lasting effects of the pandemic, or patterns of regional disparities will increase, and whether this might lead to a reorientation of funding across types of regions.

In terms of sectoral prioritisation, a likely implication for regional policy is increased support to **sectors whose strategic importance was highlighted by the pandemic, as well as the adaptation of regional strategies to national and EU recovery plan's objectives**. Given the reduced regional budgetary capacity, and consequently the potentially higher reliance on national and EU financing, it is likely that, at a strategic level, regional policy priorities will be made more coherent with national and EU (especially Recovery and Resilience Facility, RRF) ones in the field of green economy and digitalisation. A particular concern with regard to the latter is that the territorial dimension and involvement of regional and local governments appears to be absent within the framework of the EU's RRF. Instead, it is being anchored in

National Recovery and Resilience Plans and the European Semester, which may overlook the place-specific needs of the different territories.

Box 6: Regional policy priorities after COVID-19

In **the Netherlands**, it is likely that some innovation budgets, which are the largest source of regional policy funding, will become strategically oriented towards the **healthcare sector** and economic structures in the trade, logistics and industrial sectors.

In **France**, it was announced that the National Recovery Plan, which is to apply bottom up approaches and delegate implementation responsibility to sub-national authorities, is to focus on youth employment, **gaining industrial independence**, and supporting **ecological transition**.

In **Norway**, the COVID-19 crisis, together with the new ministerial portfolio 'districts and digitalisation', are likely to reinforce the importance of **digitalisation** in regional policy.

Source: EoRPA Country Reports 2020 – the Netherlands, France and Norway

ii Regional resilience

The academic literature and EU discourse have been quick to perceive the current crisis as an opportunity to promote economic resilience as a policy objective. As noted earlier, the pandemic has revealed global dependencies on strategic sectors, and created increased leverage for self-sufficiency, economic diversification, re-shoring, innovation and the modernisation of existing production systems.

These impacts were experienced to different degree across countries and regions, depending on their economic specialisation and model. Vulnerabilities to the impact of the pandemic were triggered by exposure to international value chains (e.g. France, Norway, Switzerland, Sweden), reliance on foreign workers (e.g. Poland and UK) and markets (e.g. Poland) or structural problems in the tourism sector related to over-dependency on tourism (e.g. Italy, Portugal), digitalisation, accessibility and connectivity.

Several regional recovery measures display the integration of resilience thinking in their approach. In **Switzerland**, for instance, the importance of export-oriented value creation in the New Regional Policy (NRP) is being re-examined due to the high dependency on international value chains. Using regional policy funding to build resilience has risen up the Swiss agenda.[100] More concretely, increasing local attractiveness, accessibility, connectivity and transport appear as priorities in view of the **value-added-oriented infrastructure projects** supported in **Switzerland** (via loans from the NRP, CHF 540 million)[101] and projects in **UK** (via £900 million for **local projects** in England in 2020-21 and 2021-22, and via the '**Islands Green Recovery Programme'** in Scotland).[102]

Finally, it is worth reiterating that the crisis was particularly harmful for low skilled employees, female and young work force. Building **social resilience** in this respect could be recognised in the preparation of the **Finnish** regional recovery plans, including **support for skills and social integrity.**[103]

4.2.2 *Strengthening regional development intervention?*

While the response to the pandemic has been largely at the national level, there are several early-stage indications of how the pandemic is likely to increase the role of regional governments or policies in some countries. In particular, the objectives of **territorial cohesion and reduction of economic and social disparities have risen up some policy agendas** (see Boxes 7 and 8). More generally, the pandemic required **new or more coordinated multi-level governance arrangements** in order to minimise fragmented crisis response across governmental levels and to coordinate resources based on territorial needs.[104] New forms of dialogue and multi-stakeholder consultation were launched to inform public intervention strategies (e.g. in Italy).[105] It is yet to see how such coordiantion arrangements and potentially increased multi-level governance capacities are utilised in the future.

Box 7: The UK Government 'levelling up' agenda

The UK support launched in March 2020 included a commitment to **"levelling up across the UK by raising productivity and growth in all nations and regions**, creating opportunity for everyone, and addressing disparities in economic and social outcomes". Meeting this commitment consisted of investing £640 billion in infrastructure (roads, railways, broadband, flood defences, housing, schools, hospitals and power networks), with a National Infrastructure Strategy first to follow in spring 2020, then delayed until autumn. The budget also noted the government's planned action to **review the Green Book**, which sets out how decisions on major investment programmes are appraised in order **to make sure that government investment spreads opportunity across the UK**. Further details of the plan to level up were to be set out in the comprehensive spending review (CSR) in autumn 2020, although this may be delayed. The CSR was also expected to include details on the Shared Prosperity Fund, the follow-on funding replacing European Structural and Investment Funds in the UK.

Looking ahead, the UK Government has launched a series of inquiries, including one on 'post-pandemic economic growth'. This will include a series of sub-inquiries, including a 'levelling-up' inquiry, looking at how local and regional government structures in England (including the role of powerhouses, Local Enterprise Partnerships and growth hubs, city and regional mayoralties, and councils) could be reformed or better equipped to deliver growth locally.

***Source**: EoRPA Country Report 2020 – United Kingdom*

Box 8: The 'Strategic Vision for Portugal 2020-2030 economic and social recovery plan

The continuous **Portuguese** commitment to reduce territorial imbalances through the development of the interior (low-density) areas could also be seen in the logic of the recently published 'Strategic Vision for Portugal 2020-2030 economic and social recovery plan', adopted to support the recovery of the economic and social fabric in the medium to long term. The document attributes an important role to territorial cohesion and to mobilising development of the interior of the country.[106] More concretely, it proposes an inland investment plan to be operationalised by the creation of regional 'clusters', in different economic sectors, in a logic of "decentralising the country".[107]

Furthermore, the crisis is likely to **support regionalisation/decentralisation processes, which have already been in motion.** A driving factor is the involvement of the regional level in the implementation of domestic recovery plans, as in the case of **France**, which is considered to contribute to accelerating ongoing decentralisation processes in the country. In the **United Kingdom,** the Coronavirus Act 2020 **conferred new powers on devolved ministries in areas such as health, education and justice.**[108] In **Norway**, it remains to be seen how the counties use their new-found strategic responsibilities in the wake of COVID-19.[109]

Equally, the priority given to nation-wide and sectoral measures has meant taking away competences from the regional level. This could be seen especially in countries where regional governments are responsible for determining healthcare policies, such as in **Spain and Italy**. In more general terms, the OECD has noted that, in times of crisis, governments may resort to re-centralisation measures in an attempt to keep rising problems under control. Such precedents could provide the basis for reducing regional policy responsibilities in the long-term.

4.2.3 *Budgetary implications for regional development policies*

The most obvious medium to long term implication of the pandemic for regional policy is budgetary related. Public expenditure constraints, driven by high levels of pre-crisis or crisis management debt, falling tax revenue at national and regional/municipal levels, and large expenditure increases for social benefits or support to vulnerable groups, may all limit the scope for policy responses in a number of countries.

In **the Netherlands**, municipal budgets, which were already under high pressure[110], as well as provincial and national resources, are likely to be severely affected by the emergency measures and longer-term impacts. Preliminary estimates indicate a €68 billion gap in the national annual budget (8.7 percent of GDP), which is the largest deficit since 1945.[111] Similarly, in **Ireland** the new challenges triggered by COVID-19 could undermine commitment to 'Ireland 2040', the long-term strategic plan.[112]

By contrast, where regional policy is financed predominantly by Cohesion Policy, **there is increased funding (compared to the Commission proposal of 2018) due to REACT-EU** (currently €47.53 billion, 2018 prices[113]). The EU Recovery and Resilience Facility is also likely to be used by national governments to provide regional development support. To what extent and which regions, however, would benefit from these funds is not entirely clear due to the solely national allocation criteria agreed to date at the EU level.

5 CONCLUSIONS AND DISCUSSION ISSUES

To a large extent the responses to the COVID-19 pandemic have been nation-wide in scope and have included a variety of fiscal measures, labour market and social security adaptations, and sectoral support. The role of regional policy has been secondary. Sub-national authorities have been responsible for implementing national policy objectives in managing the economic and social implications of the crisis on the ground, and contributing to national recovery. Place-based thinking has started to evolve during the planning and implementation of the economic restart and recovery measures.

For now, **COVID-19 does not appear to have prompted significant changes in regional policy objectives and governance arrangements**, but longer-term impacts and recovery processes could lead to certain changes in regional policy priorities, budgets and responsibilities.

- Constraints on national and regional policy budgets, and rising deficits as a result of the crisis measures, are likely to impact future budgetary capacity at regional level. Across countries, the effects will depend on their multi-level governance framework (level of decentralisation) and the structure of regional expenditures and revenues.[114] For most countries, the crisis will lead to higher national debt levels and possibly limit national financing provided to the regions. This would come together with rising budgetary needs for social support and investments at both national and regional level. Regional policy budgets will be constrained by falling revenues and by the deficits incurred during the crisis (esp. in the cases where regional funds cover spending in health, social protection, education, etc.). Furthermore, the pandemic could exacerbate regional inequalities, which would put additional pressure on certain regional budgets.

- Policy priorities will be influenced by needs highlighted during the pandemic. Health policy and digitalisation in particular are likely to start playing a more prominent role. Regional policy in EU Member States may also need to align more strongly with national and EU objectives, focusing on climate actions and greening the economy. Additionally, systemic resilience has become a key argument surrounding the COVID-19 political discourse, and will potentially continue to rise on policy agendas.

- Finally, the crisis has highlighted the added-value of bottom-up initiatives, the importance of administrative capacity at the sub-national level and of coordination mechanisms across governmental levels. To ensure adequate responses, regional and municipal bodies started dealing with a number of new regulations, stimulus programmes, and protocols. New or reformed coordination mechanisms and bodies have been created to ensure that support provided responds to the newly emerging needs on the ground. Overall, the pandemic has put a number of governance issues to the test, from global regulation to local collaboration and capacity building[115], and could lead to certain shifts in responsibilities or increased attention to the need to build institutional capacities at sub-national level.

Notes

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Appendix: State aid measures approved in response to the COVID-19 crisis (information available as at COB 21 September 2020)

Case	Measure	MS	Type	Decision	Budget
SA.56840	Liquidity scheme to support economy	AT	Liquidity scheme, direct grants, state guarantees for loans, subsidised public loans	09/04/2020	€15bn
SA.56981	Guarantee schemes to support SMEs	AT	Guarantee scheme, loans	17/04/2020	
	Regional aid schemes to support companies and investment in research development, testing and production of coronavirus relevant products	AT	Direct grants, equity contributions and advance payments	19/05/2020	€84m
	Support to coronavirus-relevant R&D projects by micro biotech companies Apeptico and Panoptes	AT		06/07/2020	€2m
SA.57928	Scheme to support non-profit organisations and their related entities	AT	Direct grant	06/08/2020	€665m
SA.58360	Scheme to support companies in Lower Austria	AT	Direct grants, guarantees, soft loans	10/09/2020	€120m
SA.58640	Scheme to support companies	AT	Direct grants, soft loans, guarantees	18/09/2020	Not spec'd
SA.56714	2 Interest subsidy measures: A. IS on loans <€1 billion through banks; B IS on loans thru KfW or with KfW in consortium	DE	Interest subsidy	22/03/2020	Not spec'd
SA.56787	COVID-19: Bundesregelung Bürgschaften 2020	DE	Guarantee	24/03/2020	Not spec'd
SA.56790	Federal Framework "Small amounts of aid 2020" - COVID-19	DE	Direct grant, repayable advances, tax advantages	24/03/2020	€45bn
SA.56863	Federal framework for subsidised loans 2020	DE	Soft loans	02/04/2020	Not spec'd
	"Umbrella" scheme to support research, development, testing and production of coronavirus relevant products	DE	Investment aid	29/04/2020	Not spec'd
SA.57153	Measure to recapitalise Lufthansa	DE	State guarantee, loans	25/06/2020	€6b
SA.56814	Support to enterprises affected	DE	Subordinated loans, recapitalisation instruments	08/07/2020	€500bn
SA.57644	Scheme to support airports	DE	Direct grant, tax deferment	11/08/2020	Not spec'd
SA.57447	Fund to enable liquidity and capital support to enterprises in Bavaria	DE	Guarantee, other forms of equity intervention	20/08/2020	€46bn
SA.57059	Scheme to support companies affected	FI	State guarantee, subsidised loan, capital loans	21/04/2020	€2bn

Case	Measure	MS	Type	Decision	Budget
SA.56995	Scheme to support companies affected	FI	Direct grants, equity injections, tax and payment advances and state guarantees	24/04/2020	€3bn
SA.57221 & SA.57231	Scheme to support companies in the agriculture and fishery sectors	FI	Direct grants	06/05/2020	€40m
	Loan to Finnair	FI	Loan	18/05/2020	€600m
	Scheme to support maritime companies	FI	State guarantees	28/05/2020	€600m
SA.56709	3 guarantee measures: A. Investment and working capital (Bpifrance); B. Credit lines (Bpifrance); C. Portoflio guarantee	FR	Guarantee	21/03/2020	A and B: €700m; C: €300bn
SA.56823	French Solidarity Fund for Small firms	FR	Direct grant	30/03/2020	€1.2bn
SA.56765	Deferral of certain aeronautical taxes for airlines	FR	Tax deferral	31/03/2020	Not spec'd
SA.56985	"Umbrella" scheme (Regime Cadre Temporaire) to support SMEs and large corporations	FR	Direct grants, equity injections, repayable advances, subsidised loans, state guarantees for loans, public loans	20/04/2020	€7bn
SA.56765	Guarantee scheme for SMEs with export activities	FR	Guarantee scheme, loans	24/04/2020	€150m
SA.57134	Loan guarantee to the Renault group to mitigate economic impact	FR	Loan guarantee	29/04/2020	€5m
SA.57082	Urgent liquidity support to Air France	FR	State guarantee, loans	04/05/2020	€7bn
	Scheme for automobile equipment NOVARES	FR	State guarantee	26/05/2020	€71m
	"Umbrella" scheme to support research, development, testing infrastructures and production of coronavirus relevant products	FR	Direct grants, repayable advances and tax advantages	05/06/2020	€5bn
	Scheme to sustain R&D infrastructure	FR	Guarantees	05/06/2020	€5bn
SA.57754	Salary subsidies to support the economy	FR	Subsidies	29/06/2020	€207m
SA.57695	Scheme to support companies	FR	Soft loan	30/06/2020	€30bn
SA.56786	Support for production of medical equipment and masks	IT	Grants, repayable advances	22/03/2020	€50m
SA.56690	State guarantee supporting debt moratorium	IT	Guarantee	22/03/2020	Not spec'd

Case	Measure	MS	Type	Decision	Budget
	Guarantee scheme to support self-employed workers, SMEs and mid-caps	IT	Guarantee scheme, direct grants, loans	14/04/2020	Not spec'd
SA.57068	Scheme to support SMEs in the agriculture, forestry, fishery and aquaculture sectors	IT	Guarantee scheme, direct grants	21/04/2020	€100m
	Scheme to support agriculture, forestry and fishery sectors in Fruili Venezia Giulia region	IT	Subsidised loans	21/04/2020	€50m
SA.57185	Scheme to support SMEs in the agriculture and fishery sectors	IT	Loans	04/05/2020	€30m
	Scheme to support companies active in the agricultural and fishery sectors in Campania region	IT	Direct grants	19/05/2020	€70m
	"Umbrella" scheme to support the economy	IT	Direct grants, guarantees on loans, subsidised interest rates for loans, aid for coronavirus-related R&D, wage subsidies	21/05/2020	€9bn
	Scheme to support companies active in the agricultural sector	IT	Direct grants	28/05/2020	€12m
SA.57429	Scheme to support companies and self-employed workers	IT	Tax waiver and tax credits	26/06/2020	€7.6bn
SA.57752	Scheme to support small businesses and self-employed	IT	Direct grants	08/07/2020	€6.2bn
SA.57947	Scheme to support companies active in agriculture, forestry, fishery, aquaculture and related sectors	IT	Direct grants, repayable advances, tax and payment advantages, reduction or cancellation of the payment of social security and welfare contributions, debt write-off and other payment facilities	16/07/2020	€1.2bn
SA.57289	Scheme to support SMEs	IT	Tax credit scheme	31/07/2020	€6bn
SA.57891	Scheme to support internationally active companies	IT	Direct grants	31/07/2020	€300m
SA.58208	Scheme to support sport associations and entities	IT	Guarantee, interest rate subsidy	19/08/2020	€1.6m
SA.58300	Scheme to support companies in the municipality of Campione d'Italia	IT	Tax advantages, tax credit.	21/08/2020	€460k
SA.57612	Scheme to support large companies	IT	Recapitalisation instruments, hybrid capital instruments	17/09/2020	€44bn
SA.56915	Direct grant scheme for e-Health services at home	NL	Direct grant	03/04/2020	€23m
	Scheme to support the economy	NL	Guarantee scheme, loans	22/04/2020	€10bn

Case	Measure	MS	Type	Decision	Budget
	Subsidised loan scheme to support SMEs affected	NL	Soft loans	24/04/2020	€100m
	Scheme to support SMEs	NL	Guarantees	27/05/2020	€713m
SA.57712	Scheme to support fixed costs of SMEs	NL	Direct grant scheme	26/06/2020	€1.4bn
SA.57850	Scheme to support small and micro companies	NL	Subsidised loans	08/07/2020	€25m
SA.57116	Urgent liquidity support to KLM	NL	State guarantee on loans, subordinated State loan	13/07/2020	€3.4bn
SA.57897	Scheme to support the development and implementation of e-health applications	NL	Direct grants	16/07/2020	€77m
SA.57985	Measure to support the travel industry	NL	Guarantee schemes, subsidised loans.	28/07/2020	€165m
028/20/COL	COVID guarantee scheme (SMEs)	NO	Guarantee	26/03/2020	€895m
029/20/COL	COVID guarantee for airlines	NO	Guarantees	30/03/2020	Not spec'd
031/20/COL	Extension of COVID guarantees to large firms (028/20/COL)	NO	Guarantees	02/04/2020	None extra
032/20/COL	Compensation for cancellation of cultural events	NO	Grant	03/04/2020	€26.6m
033/20/COL	Compensation for cancellation of sport / volunteering events	NO	Grant	03/04/2020	€62.5m
SA.56876	Liquidity guarantee fund	PL	Guarantee, Interest subsidy	03/04/2020	€4.8bn
SA.56896	Loan and guarantee scheme to support economy	PL	Guarantee	08/04/2020	€700m
SA.56979	Scheme for micro, SME and large enterprises' liquidity	PL	Guarantee scheme	10/04/2020	€115m
SA.57065	Scheme to support the economy	PL	Loans, guarantee scheme	22/04/2020	€110m
SA.56922	Schemes to support companies affected	PL	Guarantee scheme, direct grants, repayable advances, tax and payments advantages, deferrals of tax payments and wage subsidies	23/04/2020	€7.8bn
SA.57015	Scheme to support companies affected	PL	Grants, repayable advances	24/04/2020	€700m
	Scheme to support micro and SMEs affected	PL	Repayable advance scheme	27/04/2020	€16.6b
	Scheme to support companies	PL	Loans, public guarantees	11/05/2020	€450m
	Subsidised loan scheme for large enterprises, and certain SMEs	PL	Loans	25/05/2020	€2.2bn
	Scheme to enable capital support to SMEs and large enterprises	PL	Recapitalisation instruments	11/06/2020	€1.65bn

Case	Measure	MS	Type	Decision	Budget
	Scheme to support companies active in the primary agricultural sector	PL	Interest rate subsidies	12/06/2020	€9m
	Scheme to support R&D, testing and production of coronavirus relevant products	PL	Direct grants, soft loans	18/06/2020	€449m
SA.57452	Scheme to support companies	PL	Recourse and reverse factoring	23/07/2020	€2.6bn
SA.57726	Scheme to support companies	PL	Reduction of annual fee, exemption of rent, lease or usufruct fees.	27/07/2020	€123m
SA.58105	Scheme to support micro, small and medium companies active in the primary agricultural sector	PL	Direct grants	30/07/2020	€95m
SA.58102	Scheme to support companies operating in the tourism and cultural sector	PL	Direct grants, soft loans, exemptions from social contributions	21/09/2020	€193m
SA.56755	4 Guarantee schemes: A. Tourism B. Restaurants. C. Extractive, manufacturing. D. Travel agencies, events.	PT	Guarantee	22/03/2020	€3bn
SA.56873	Direct grant and loan guarantee scheme	PT	Direct grant/ Interest rate subsidy, Guarantee	04/04/2020	€1.6bn
SA.56886	Direct scheme to support SMEs in the fishery and aquaculture sector	PT	Direct grant, loans	08/04/2020	€20m
SA.57035	Scheme to support investment in research, development, testing and production of coronavirus relevant products	PT	Direct grants	17/04/2020	€140m
SA.57049	Schemes to preserve jobs in the Azores region	PT		20/05/2020	€43m
	Scheme to support companies affected in the autonomous region of Madeira	PT	Direct grants, state guarantees on loans	19/06/2020	€40m
SA.58423	Scheme to support SMEs in the agricultural and agri-food sectors	PT	Interest subsidy	31/08/2020	€5m
SA.56860	Guarantee programme	SE	Guarantee	02/04/2020	€9.1bn
SA.56812	Guarantee scheme to support airlines affected	SE	Guarantee scheme	11/04/2020	€455m

Case	Measure	MS	Type	Decision	Budget
SA.56972	Rebate scheme to support affected sectors (hospitality, retail, and others)	SE	Rebate scheme	15/04/2020	€453m
SA.58342	Measure to recapitalise SAS	SE	State recapitalisation	17/08/2020	€1bn
SA.56792	UK COVID 19 measure CBILS Guarantee	UK	Guarantee	25/03/2020	Not spec'd
SA.56794	Coronavirus Business Interruption Loan Scheme (CBILS) Grant - COVID-19	UK	Direct grant	25/03/2020	€680m
SA.56841	COVID-19 Temporary Framework for UK authorities	UK	Direct grant, Guarantee, Interest subsidy, Repayable advances, Soft loan, Tax allowance, Tax base reduction, Tax deferment, Tax rate reduction	06/04/2020	€57bn
SA.57152	Scheme to support self-employed individuals and members of partnerships	UK	Direct grants	11/05/2020	€10.3bn
SA.58205	Scheme to support Scottish businesses	UK	Soft loan	24/08/2020	€16m

EoRPA RESEARCH

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