European Commission

FORGING A SUSTAINABLE FUTURE TOGETHER: COHESION FOR A COMPETITIVE AND INCLUSIVE EUROPE

REPORT OF THE HIGH-LEVEL GROUP ON THE FUTURE OF COHESION POLICY

February 2024

Regional and Urban Policy

This document should not be considered as representative of the European Commission's official position.

Luxembourg: Publications Office of the European Union, 2024

Print	ISBN 978-92-68-10296-1	doi:10.2776/143512	KN-06-23-048-EN-C
PDF	ISBN 978-92-68-10295-4	doi:10.2776/974536	KN-06-23-048-EN-N

FORGING A SUSTAINABLE FUTURE TOGETHER: COHESION FOR A COMPETITIVE AND INCLUSIVE EUROPE

REPORT OF THE HIGH-LEVEL GROUP ON THE FUTURE OF COHESION POLICY

February 2024

THE HIGH-LEVEL GROUP ON THE FUTURE OF COHESION POLICY

The European Commission, the Directorate-General Regional and Urban Policy has set up a Group of High-level Specialists on the future of Cohesion Policy. The Directorate-General Employment, Social Affairs and Inclusion was associated. The Group offers conclusions and recommendations that will feed the reflection process on Cohesion Policy post-2027.

Members of the Group: Andrés Rodríguez-Pose (chair), László Andor, John Bachtler, Pervenche Berès, Riccardo Crescenzi, Aleksandra Dulkiewicz, Alva Finn, Jasna Gabrič, Rodi Kratsa, Constanze Krehl, Karl-Heinz Lambertz, Joaquim Oliveira Martins, Petr Osvald, Enrico Rossi, Zornitsa Roussinova, Sari Rautio, Andreea-Alexandra Scrioșteanu, Helga Trüpel.

The work of the Group was facilitated by the European Commission Directorate-General Regional and Urban Policy and Directorate-General Employment, Social Affairs and Inclusion, which were supported by Spatial Foresight, Kai Böhme and Paola Marinović, and Tim Wills for language review.

DISCLAIMER

The opinions expressed in this paper are the sole responsibility of the authors and do not represent the official position of the European Commission.

CONTACT

EUROPEAN COMMISSION
Directorate-General Regional and Urban Policy
Unit B.1 — Policy Development and Economic Analysis
E-mail: REGIO-FUTURE-COHESION-POLICY@ec.europa.eu
European Commission
B-1049 Brussels

TABLE OF CONTENTS

PREFACE

The European Union faces significant challenges, including the climate crisis, the digital revolution, global competition, and demographic change. Each of these challenges has its risks, but also brings new opportunities. It is therefore crucial, that we manage the challenges well. So that every region in Europe avoids the risks – and benefits from the opportunities.

This has long been the objective of Cohesion Policy. Since its origin, the policy has always had the goal of ensuring that no place is left behind. But from the creation of the European Single Market onwards, this has become more pressing: with every step of European integration, every enlargement, every external change, the policy has been there to make sure that every European gets a fair chance, wherever they live.

Because of the changing nature of the challenges, the policy has had to evolve. But it is clear that the scale of today's challenges requires a further evolution, a significant modernisation of our methods, while preserving its key objective of promoting convergence and principles. And it is equally clear that this requires a broad and significant discussion, involving all the stakeholders, as well as technical specialists.

This is why, two years ago I launched a reflection on the future of Cohesion Policy setting up a high-level group of specialists: gathering independent expertise and experience from European, national, regional, and local policy actors, socio-economic partners, academia and civil society. The Group was asked to conduct an independent analysis of the state of play – and implications for Cohesion Policy.

Throughout 2023, the Group held monthly sessions. Academics and stakeholders provided evidence, followed by thorough debates. Sessions were all web-streamed - and the preparatory material and conclusions of each meeting were publicly available. I wanted this debate to be open and inclusive – such transparency is key to an honest discussion. This also fits the values and principles of Cohesion, which has always involved partners in the design and implementation of the Policy.

This report is the outcome of the Group's intense work. I would like to sincerely thank all its members and its Chair, Andrés Rodríguez-Pose, for their valuable input. The report provides a set of independent recommendations on the role and objectives of Cohesion Policy, as well as how to adapt and remain effective in the future.

The report is, of course, completely independent and does not represent a Commission position. But it is a rich source of inspiration – as well as a robust reference – for all who are actively engaged in the future of Cohesion Policy. This adds to a rich body of reflections from all over Europe: from European institutions, from national authorities, and from regional and local stakeholders.

As we embark on this journey towards a more united and resilient European Union, this Report stands as a clear testimony: Cohesion Policy, and the principle of Cohesion, remain as relevant as ever. For European solidarity, for prosperity, and for a future which leaves no place feeling forgotten. In short, for the common values that have guided the European Union and its institutions for almost seventy years.

Elisa Ferreira

European Commissioner for Cohesion and Reforms

EXECUTIVE SUMMARY

Cohesion Policy is the prime investment policy of the European Union (EU). It is designed to promote harmonious progress, advancing economic, social and territorial development throughout the Union by channelling investments into regions with lower levels of development and/or specific vulnerabilities (i.e., persistent structural challenges). Its investments are crucial to the EU's competitiveness both locally and on a broader scale. They address key structural bottlenecks faced by EU regions, to enable achievement of the EU's primary economic and social objectives.

For more than three decades since the 1989 reform of Structural Funds, Cohesion Policy has lifted many Europeans out of poverty. It has driven social and economic progress across the EU through investments tailored to the unique local conditions and structural issues of each region.

Cohesion Policy has become the most comprehensive and sophisticated approach to territorial development globally. It has inspired similar initiatives in other parts of the world as other countries recognise the significant economic, social and political costs associated with a lack of economic, social and territorial cohesion.

However, the EU today faces vastly different challenges from those prompting the 1989 reform of the then-nascent Cohesion Policy. Cohesion Policy must evolve to effectively address the structural challenges confronting the EU and continue to improve the well-being of all Europeans.

As the challenges have multiplied, the capacity of the EU to respond has also grown. In recent years, the EU's record in dealing with major crises has notably improved. Learning from mistakes in the response to the 2007-2008 financial crisis with the subsequent austerity, bold strategies, such as NextGenerationEU and a flexible Cohesion Policy, have enabled a swift recovery from the economic fallout of the Covid-19 pandemic.

The EU's approach to structural challenges is becoming equally assertive. A rising cost of living and political instability as well as war and geopolitical risks on its borders have catalysed action on strategic autonomy and industrial policy. This shift is intended to reverse the EU's declining economic competitiveness. By focusing on missions with increased investments in science and technology, the EU also aims to bridge a growing innovation gap compared to leading developed and emerging nations. Additionally, the EU is at the forefront of addressing global challenges through initiatives such as the green, digital and demographic transitions. All these actions strive to build a competitive, sustainable, fair and resilient EU, a Europe that can continue to be a leader on the world stage.

WHY COHESION?

Dealing with the EU's structural problems can be an uphill struggle. The strong instruments adopted by the EU might not suffice, as large economic, social and political risks lurk.

The decline in competitiveness is possibly the most pressing structural challenge. Over the past three decades the EU economy has lost considerable weight on the world stage. It has shrunk from being over a quarter of the global economy to less than 17%. Low development and territorial polarisation are also important threats. In 2023, 120 million EU citizens lived in less developed regions. 60 million resided in regions with lower GDP per capita than in 2000 and nearly one third of the EU's population were in regions with annual GDP per capita growth of less than 0.5% per annum since the turn of the century. Moreover, a lack of opportunity is limiting the potential of many citizens to fully use their talents. This is creating cycles of poverty and social exclusion, feeding discontent across the continent.

For the EU to redress these structural challenges and improve the economic and social well-being of its citizens, **it must enable all its people to use their full potential, wherever they live**. In other words, **it needs economic, social and territorial cohesion** (henceforth cohesion).

Cohesion is needed to tackle economic problems. The EU cannot solely rely on the dynamism of its large agglomerations. It needs thriving large cities, but almost four-fifths of the EU's growth is produced outside them. By promoting cohesion, the EU enhances its **capacity to fully tap into its pool of talent**. This talent is found in dynamic regions and also in many smaller cities, towns and rural areas, as well as in industrial and remote regions with fewer opportunities.

Cohesion is also fundamental to address **poverty, social exclusion and the rising tide of discontent** gripping many less developed and vulnerable regions.

Cohesion is the glue that binds Europeans together. It creates a unified, inclusive Europe where every citizen can feel a sense of belonging and engagement with its objectives.

Without stronger cohesion, the EU would waste a substantial part of its innovation and human capital potential, diminishing its global standing. **Without stronger cohesion, the EU's ability to reach a consensus on pressing issues is impaired.** This would further threaten the achievements of European integration as well as the EU's capacity to deal with pressing global challenges.

WHAT COHESION POLICY?

Addressing the EU's structural challenges requires a more effective Cohesion Policy central to EU policy architecture and capable of contributing to the benefits of European integration, while simultaneously improving the Single Market's functionality.

This policy should go beyond 'business as usual'. While achieving considerable success in the past, Cohesion Policy has been increasingly called on to fight many fires. As a consequence, it has taken a far greater role in the EU's emergency responses, meaning that its administrative complexity has increased along with a rising emphasis on compliance over impact. In many circles it is progressively seen as a support mechanism rather than as what it really is: **a powerful tool for economic and social development, spreading the benefits of European integration.**

Cohesion Policy must thus reform. It should refocus on development. Its fundamental concern should be to **mobilise untapped economic potential in the EU, particularly by investing in its less developed and in regions in development traps or at risk of falling into one**. It should promote economic convergence and equality of opportunities for all EU citizens —and, especially, for groups in vulnerable situations such as women, children, young and elderly people, people with disabilities, persons with low education, migrants and Roma people and other ethnic or religious minorities and people at risk of experiencing poverty— wherever they live. Addressing these issues also involves recognising the impacts of brain drain on the less developed regions of the EU.

The policy should be a dynamic tool to unleash economic potential while reducing disparities and fortifying the social economy model on which Europe is founded. This involves adopting a systemic approach to development, facilitating territorial ecosystems conducive to knowledge and innovation with inclusive and sustainable development. **It should promote global networks, connectivity via trade and cross-border investment as well as engagement with global value chains**. This would include strategic autonomy, with cross-border cooperation to reduce the negative economic impact of internal and external borders.

HOW SHOULD COHESION POLICY CHANGE?

To deliver on these goals, **Cohesion Policy needs to** reject 'one-size-fits-all' approaches and **become more place- and people-based**. This includes exploiting the capacity of regional economies by realising existing potential and encouraging all forms of innovation. Customised strategies for regions should ensure an effective and inclusive approach to regional development that is sustainable and resilient to a changing global environment. It also requires a people-based approach intervening in places where people are most marginalised.

Institutional capacity and governance are vital for development. **Building better institutions and improving governance should be integral to Cohesion Policy**. Institutional improvement should be on par with the investment in infrastructure and productive capital, human capital and innovation as basic pillars for development. This requires strengthening and empowering local government, and enhancing stakeholder involvement, including civil society stakeholders. It also involves professional and technical assistance, as well as improved data collection and analysis to support a stronger evidence-based approach to cohesion.

Cohesion Policy should also reinforce its shared management. This involves **supporting the principle of partnership and strengthening the multilevel governance** that lay at its heart. It should build on collaboration and stakeholder engagement at multiple levels from the EU to Member States and regions, as well as within these regions. This nurtures a participatory approach to programme planning, implementation and evaluation.

Cohesion Policy must become more performance-based, blending its territorial dimension with a greater focus on results. However, performance-based approaches should comply with the partnership principle and learn from other policies as well as research on effective, performance-based programming. In addition, simpler procedures and clearer criteria can go a long way to improving efficiency. This includes streamlining administrative practices, reducing paperwork and more efficient approaches.

Cohesion Policy should also reiterate that it is a proactive policy rather than one that intervenes once a crisis is in full swing.

WITH WHOM SHOULD IT COLLABORATE?

Cohesion is far too important to be left to Cohesion Policy alone. **It should operate in concert with other EU and national policies,** as these are mutually dependent and must work together to reach their collective goals. Economic, social and territorial cohesion cannot be achieved without other policies taking into account their uneven territorial impact. Building bridges between Cohesion Policy and other EU and national policies strengthens the capacity of those policies to realise their goals. The EU cannot deliver green, digital or demographic transitions if the uneven territorial benefits and costs of implementation are ignored. Likewise, a well-functioning Single Market, including its four freedoms, relies on synergies with Cohesion Policy. In addition, the uneven territorial dimension of innovation and defence policies must be considered.

The European Semester and Economic Governance are essential to buttress synergies between Cohesion Policy and other EU policies. Building these synergies will deliver a stronger, more sustainable and resilient EU that benefits all its citizens.

COHESION AND ENLARGEMENT

The success of future enlargements will also depend on Cohesion Policy helping to integrate and develop candidate countries. **Cohesion Policy is vital to address the economic and development challenges faced by potential new Member States from the western Balkans and eastern Europe.** The policy should be tailored to the specific needs and challenges of each Candidate Country, ensuring integration and development in line with EU standards and objectives. This concerns financial support as well as administrative capacity and institution building.

However, the focus on integrating and developing new Member States should not be at the expense of investment in current EU regions. In particular, Cohesion Policy should take into account the potential impact that enlargement will have in regions bordering Candidate Countries, as well as current EU regions most severely affected by global value chain changes in the wake of future enlargements.

Summary of recommendations

Why cohesion?

- Cohesion concerns all. It is about improving prosperity across the entire EU.
- Cohesion is more necessary than ever if the EU is to successfully face its growing long-term structural challenges.
- Cohesion is key to enable the EU to harness its full economic and social potential and tap into its pool of talent.
- Cohesion can help defuse the rise in discontent.
- Cohesion strengthens the ties that bind all Europeans together, promoting a shared sense of belonging and strengthening the European project.
- Cohesion ensures that no European is left behind.

What should Cohesion Policy do?

- A policy for all.
- A systemic and dynamic policy that taps into the EU's untapped economic potential, especially in less developed and vulnerable areas, enhancing development and competitiveness throughout the continent and encouraging the generation and diffusion of economic activity.
- A policy that promotes territorial fairness.
- A policy that addresses the main structural challenges of the EU: low development; long-term economic stagnation; and lack of opportunities across all regions.
- A policy that builds bridges across the EU's internal and external borders.

How should Cohesion Policy change?

- A place-based and transformative policy, with future-oriented investments sensitive to the unique strengths, challenges and needs of regions.
- A policy exploiting local capabilities and potential and developing future opportunities for inclusive and sustainable growth through diversification and collaboration.
- A policy that builds better institutions, putting institution and capacity building on par with investment in infrastructure and productive capital, human capital and innovation as the basic pillars to achieve development.
- A policy that builds on the partnership principle and shared management to bring together stakeholders from different tiers of government and civil society to deliver more effective and inclusive development strategies.
- A policy that connects regions to harness global opportunities and to deliver more sustainable and resilient innovation.
- A policy that becomes even more performance-based, blending this approach with its territorial dimension.
- A policy that streamlines its administrative procedures, reducing paperwork and adopts more efficient approaches to simplify processes and make them more user-friendly.
- A policy that remains fundamentally concerned with its original mission of driving sustainable development and boosting competitiveness, while maintaining flexibility to address urgent challenges.

With whom should Cohesion Policy collaborate?

- A policy that forges synergies with other EU and national initiatives to ensure that all policies deliver on their goals.
- A policy with a strategic framework uniting competitiveness and cohesion and other relevant policies as part of the European Semester process.

Cohesion Policy and enlargement

- Cohesion Policy is a vital policy to guarantee an effective integration of future Member States without compromising investment in current EU regions.
- A policy that ensures that enlargement is not conducted at the expense of regions of current Member States bordering candidate countries, as well as regions most severely affected by changes of European and global value chains.

1 INTRODUCTION

The EU is at a critical juncture in its history. It faces a transformative phase of integration with significant developments and remarkable opportunities. However, this also brings the daunting challenge of navigating uncharted waters. To date, the EU has been refreshingly bold in dealing with challenges. This includes taking a global lead in the green, digital and demographic transitions as well as formulating a new European industrial policy to build economic resilience and enhance its strategic autonomy. It is also laying the groundwork for an enlargement which should bolster economic prosperity, strengthen democratic institutions and enhance security, particularly on the eastern and south-eastern flanks of the continent.

Simultaneously, the EU has been equally daring in dealing with the Covid-19 emergency through ambitious instruments, including the NextGenerationEU fund, the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), and by adopting greater flexibility in its implementation of Cohesion Policy.

Such assertive steps reflect the EU's resolve to tackle problems. These include the structural challenge of declining dynamism and competitiveness on the global stage that has plagued it in recent decades. To this end, it has pinpointed key priorities. These include enhancing the functionality of the Single Market, expediting research and innovation in essential technological areas through mission development, substantial investments in renewable energy, capitalising on opportunities presented by the green, digital and demographic transitions, as well as improving access to private capital and digital tools. Concurrently, the EU remains steadfast in its commitment to a more social Europe through the European Pillar of Social Rights and the social initiatives in the Social Pillar Action Plan, including commitments to increasing inclusion, care, education and skills as well as more and better quality jobs.[1]

These ambitious measures are set to enhance development and bolster resilience within the EU. They will also strengthen its strategic autonomy. However, these steps alone will not suffice to build a more competitive and dynamic Europe; a Europe where every citizen has enough opportunities to develop their talents and feels adequately supported. Furthermore, a growing number of individuals are concerned about not having access to the same opportunities as their parents. This apprehension stems from the structural challenges facing the EU that have been festering and growing for so long that they now require bolder action. Merely relying on the dynamics of the internal market alongside Cohesion Policy is not enough to address the increasing array of structural challenges.

For at least the last three decades, Europe's economic growth has consistently lagged behind the world overall, particularly compared to the most advanced and emerging economies. This extended period of relative economic underperformance has been matched —and to a certain extent exacerbated— by increasing polarisation within countries. Economic activities have become ever more concentrated in a few dynamic areas, which commonly coincide with large urban agglomerations and national capitals. Many regions have, by contrast, been left behind and are frequently trapped in lengthy periods of underdevelopment from which recovery is challenging.[2]

Economic polarisation is further compounded by a lack of opportunity and access to supportive services. As a result, pockets of vulnerability, social exclusion and poverty are growing.

Lack of economic dynamism, polarisation and scant opportunities are at the base of a rising tide of discontent with the European project. This discontent is particularly strong in regions that have remained stuck with low levels of development or faced prolonged stagnation.

The roots of these challenges are complex and multifaceted, yet they are deeply intertwined with the need to build cohesion. The EU needs economic, social and territorial cohesion (henceforth cohesion) to fully harness its diverse potential and mobilise talent across the territory. Europe needs cohesion to fire on all economic and social cylinders, leaving no economic and social potential untapped and no individual behind.

Talent is distributed more evenly than opportunities. A lack of opportunity in many parts of the EU dents the continent's dynamism and contributes to a rising disaffection with the consensus that has driven European integration since the end of the Second World War. The rise in discontent, in turn, poses an additional threat to future economic development and social stability.

To tackle waning European competitiveness, rising internal polarisation, insufficient opportunities and increasing disillusionment with European integration, greater cohesion is required. Without it, Europe's standing on the world stage will be impaired. Long-term competitiveness and economic dynamism are unattainable without cohesion. Cohesion deficits also pose a substantial threat to the economic, social and political achievements that have been the hallmark of European integration over the past seventy years.

The EU needs a more robust approach to cohesion. It needs to build on the past successes of Cohesion Policy. This is a policy whose investments have significantly impacted income, employment and quality of life, transforming many regions. The policy has also enabled regions to identify unique opportunities for development and growth. Its distinctive delivery system, founded on multilevel governance and partnership, has been key to addressing the needs of regional and local communities. Additionally, Cohesion Policy has played a crucial role in maintaining investment and employment during crises, including the economic and financial crisis and the recent Covid-19 pandemic.

However, Cohesion Policy needs to keep evolving to improve. It needs to continue to augment the returns of its interventions, especially in those areas with the most challenging structural problems. It also needs to become more performance-based, avoid rigidity and complexity while strengthening its adaptability to meet the diverse needs of different regions. It needs to build on its pioneering integration of institutions to deliver effective place-based responses everywhere in the EU. It should strengthen its capacity to connect regional assets with EU and global opportunities, promoting sustainable and resilient innovation. Moreover, it should become even leaner and more efficient, avoiding 'reform fatigue' among local stakeholders and implementation agencies.

Hence, the EU needs a Cohesion Policy, and needs it more than ever. The EU also has to rethink cohesion and Cohesion Policy as the calibre of the challenges means existing schemes cannot simply be replicated. Cohesion Policy should break the perception of being merely a policy that offers support or compensation for regions that benefit less from European integration. The EU needs a Cohesion Policy that powers economic development and competitiveness, a policy that mobilises the economic potential of less developed and vulnerable regions. One which promotes economic growth for the EU as a whole as well as economic convergence with more equal prosperity and opportunities for all.

The European Commission, through Elisa Ferreira, Commissioner for Cohesion and Reforms, invited us members of the High-Level Group on the Future of Cohesion Policy to help in rethinking cohesion and Cohesion Policy. Our task has been to draw up strategic recommendations on how to maximise the effectiveness of Cohesion Policy with a view to tackling the multiple challenges faced by the EU.

This report is the result of the group's deliberations. The eighteen members of the group brought different but complementary perspectives to economic, social and territorial cohesion as well as the design and implementation of Cohesion Policy. These perspectives are grounded in personal experience with policy practice and academic research.

The group has also built on academic documents and issue papers prepared by the Commission services at our request. We took into account stakeholder input from institutions, bodies and organisations invited to the group's meetings. (See the Group's website to access and download this wealth of material and for further details: https://ec.europa.eu/regional_policy/policy/how/future-cohesion-policy_en).

Our view is that the EU and Cohesion Policy need to strike a delicate balance between strengthening global competitiveness and growth while tackling divergence within countries, growing discontent and demographic challenges. The priority should be territorial development for the whole of the EU. Cohesion Policy is and should remain the main policy and instrument to achieve this goal but not the only one. Cohesion, after all, is too important for the EU to be left to Cohesion Policy alone.

This report explores how greater cohesion is key to address challenges diminishing the EU's dynamism and competitiveness. It also posits that greater cohesion is essential to confront the multiple and unprecedented threats that the European project faces. The EU thus needs a Cohesion Policy placed more effectively at the core of the European policy architecture. It also needs Cohesion Policy to become more efficient in its design and implementation.

We delve into the why, what, how and with whom of cohesion. First, we explore **why** cohesion is needed to build a brighter future together. Second, we discuss **what** can be done to transform Cohesion Policy into a more efficient tool to enhance Europe's competitiveness and dynamism while reducing disparities in wealth and opportunities for all its citizens, regardless of where they live. Third, we examine **how** to make Cohesion Policy more effective to deliver on its goals. Fourth, we consider **with whom** should Cohesion Policy create synergies to improve economic and social development. We conclude by considering the probable future **enlargement of the EU**. This includes the role Cohesion Policy can play in boosting the benefits of EU membership for countries with a strong yearning to become fully-fledged partners of the European project but with more challenging socio-economic conditions than in previous enlargements.

In conclusion, as the EU embarks on this new phase of integration, it encounters a dual challenge: to stay on course with its ambitious global objectives while tackling disparities and rising discontent within its borders. This report offers an overview of these challenges and proposes strategic recommendations for a more effective Cohesion Policy. Our goal is to ensure that no person or place is permanently left behind and that the full potential of each area is fully realised, contributing to a more cohesive and therefore dynamic, competitive and fair Europe.

2 WHY COHESION?

Key recommendations

- Cohesion concerns all. It is about lifting the entire EU into prosperity.
- Cohesion is more necessary than ever if the EU is to successfully address its growing long-term structural challenges.
- Cohesion is key to allow the EU to harness its full economic and social potential and tap into its pool of talent.
- Cohesion can help defuse the rise in discontent.
- Cohesion strengthens the ties that bind all Europeans together, promoting a shared sense of belonging and strengthening the European project.
- Cohesion ensures that no European is left behind.

2.1 WHY DO WE NEED COHESION NOW MORE THAN EVER?

In the current era, the need for cohesion across the EU has become more critical than ever. The EU faces urgent challenges and calls for intervention on a scale that is perhaps unparalleled in its history. From the ongoing conflicts in Ukraine and Gaza to profound geopolitical shifts, as well as grappling with inflation and the most severe pandemic in a century, the EU has been dealing with an unremitting series of tests.

The EU's response to these challenges has been a blend of learning and adaptation. The 2007-2008 financial crisis was met with austerity measures creating a recession. As a result of significant cuts in public expenditure with fractious and indecisive intervention, the crisis morphed into a near-decade-long economic calamity. However, the experience of this failed response has been instrumental in shaping more effective strategies to address subsequent challenges.

The EU met the Covid-related economic crisis with a fundamental shift in policy paradigms, involving an unprecedented economic stimulus and a return to industrial policies.[3] It gave itself strong policy instruments to combat the crisis. The Response and Recovery Fund (RRF) has mobilised EUR 750 billion through NextGenerationEU. SURE has supported 31.5 million people and 2.5 million companies (see Inset 2). Cohesion Policy has also played a central role in EU crisis responses. By becoming more flexible and setting up specific crisis instruments, it allowed Member States and regions to react quickly and effectively against the effects of the pandemic and war in neighbouring Ukraine. These bold and prompt actions have facilitated a recovery that, compared to the previous financial crisis, seemed almost unimaginable, showcasing the EU's growing proficiency in promptly handling crises.

However, decisive action in the face of urgent crises has rarely been matched when handling long-term, structural, socio-economic challenges. On this front the EU's performance has at times struggled. These challenges not only significantly affect the livelihoods of European citizens but also have a profound impact on Europe's position in the global arena.

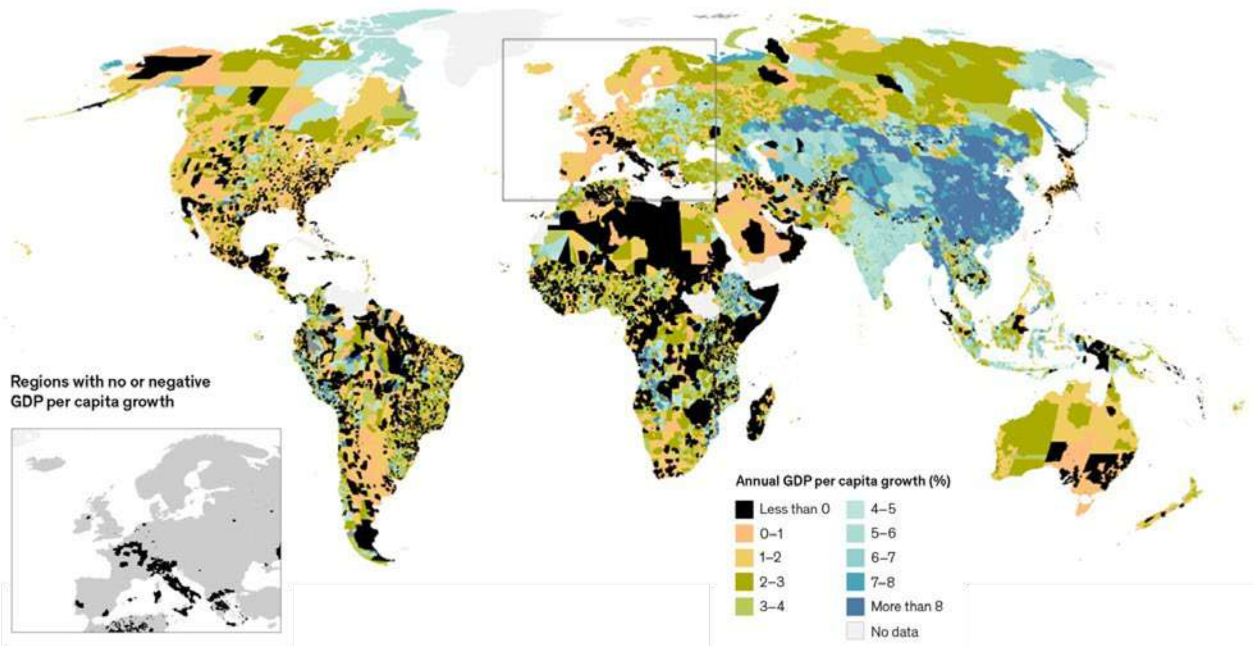
This section offers an overview on these challenges. We explore how issues linked with cohesion lie at the root of many current problems for the EU. The focus is on turning these challenges into opportunities, underlining the need for cohesive action to ensure a resilient, dynamic and unified EU, capable of not just surviving but thriving in an evolving global environment.

2.2 THE CHALLENGES

2.2.1 THE COMPETITIVENESS CHALLENGE: THE DECLINING CLOUT OF THE EU IN THE WORLD

In the past three decades, the global economy has undergone a profound transformation. The world has seen a remarkable shift in wealth and prosperity, with an unprecedented reduction in poverty.[4] Hundreds of millions across the globe, especially in Asia, have been lifted into the middle class. However, while many parts of the world have been basking in an era of increased prosperity, Europe has seen its relative economic and demographic weight diminish.[5] This relative decline is impacting its influence and status as an economic and political power and as a model for the rest of the world.

Figure 1. Regional GDP per capita growth 2000-2019 at world level



Data at World Bank's purchasing power parity (PPP), 2017 international dollars. Data cover 178 countries in the world between 2000 and 2019. For 61 countries where regional data are available and reliable, official statistics were used. For the remaining 117 countries nighttime satellite imagery was used to estimate subnational GDP. Nighttime satellite imagery was adjusted following Kummu et al. (2018).

Source: elaborated with data from McKinsey Global Institute (2023).

Recent economic expansion in various parts of the world has been striking. Since 2000, many regions in China, northern Kazakhstan and the Caucasus have experienced GDP growth per capita exceeding 8% per annum. Regions in India, Bangladesh, most of Southeast Asia, and Ethiopia have witnessed such growth in excess of 4% (Figure 1).

In contrast, Europe's regional economic growth tells a very different story. While central and eastern European countries have shown considerable dynamism and resilience, with most regions in Lithuania, Poland,or Romania achieving annual per capita growth of more than 3%, most western European regions have fallen behind (Figure 1).

This listless growth is particularly pronounced in certain parts of the EU. In many regions of Greece, Italy and north-eastern France, real GDP per capita in 2023 was below that of 2000 (Figure 1, inset 1). More than 60 million EU citizens live in regions with GDP per head lower than in the year 2000. An additional 75 million in regions with near-zero growth. Collectively, about 135 million people, nearly one third of the EU population, live in places which, in the last two decades, have slowly fallen behind.

Such performance is sapping the EU’s global economic standing. The last three decades have not been kind to the EU in terms of its share of the global economy. In 1991, EU GDP was over a quarter of the world's total (measured in constant 2015 US dollars by the World Bank). By 2022, this had fallen to less than 17%. EU GDP growth over these three decades was slower than the global average, increasing by just over 65%, compared to a 146% increase globally (Figure 2).

During this period, global GDP rose 2.2 times faster than for the EU. Moreover, Europe’s productivity, as measured by GDP per worker, went from three times higher than the world average to 2.37 times (Figure 2). EU wages similarly decreased from 2.94 times the world average to 2.62 times.

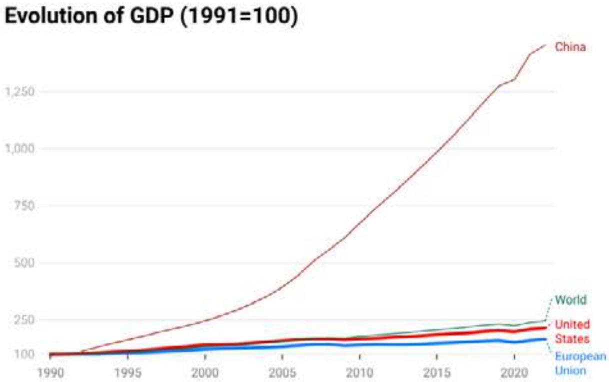
Comparing EU economic growth to its main competitors further accentuates the dimension of this relative decline. US GDP, which was only 6.3% higher than the EU in 1991, was almost 37% higher by 2022 (Figure 2). The contrast with China is more striking: Chinese GDP, a mere 12% of the EU’s in 1991, surpassed the EU’s by almost 7% in 2022 (Figure 2). The Chinese economy outperformed the EU in 30 of the 31 years between 1991 and 2022, the only exception being during the Covid-19 pandemic. Similarly, the US outgrew the EU in 23 of these 31 years.

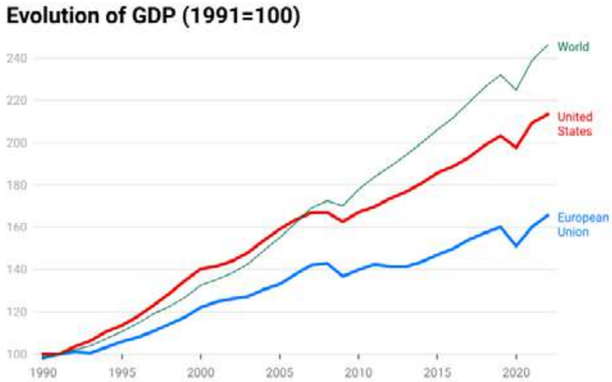
One of the few areas where the EU has performed better is employment. In contrast to the global trend where the employment-to-population ratio for those over 15 declined by over 8%, the EU saw a rise of 3.7%. However, employment rates in the EU remained below those of China, the US and the world as a whole (Figure 2). A better recent employment performance did also not translate into significant productivity gains. Compared to the rest of the world, the US and particularly China, the change in EU productivity was far less impressive (Figure 2). Demographically, the EU's share of world population shrunk from 8% in 1991 to 5.6% in 2022.

Overall, these three decades of relative economic and demographic decline have affected the EU’s global standing, weakening its position as a global leader and an example to follow. To prevent a diminished economic and demographic stature in a period of augmented global prosperity from further denting its influence in the world, the EU needs to focus on stimulating GDP and income growth. In other words, it requires a clear strategy to improve competitiveness.

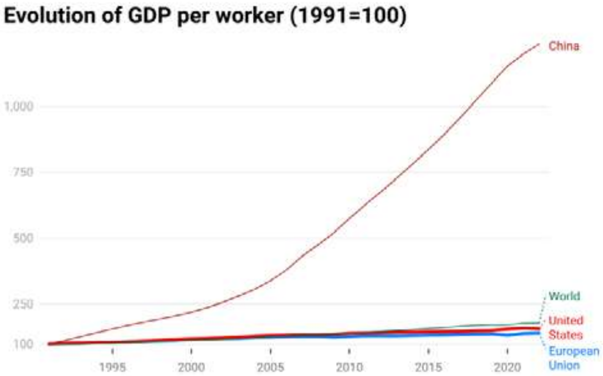
Figure 2. Change in world, EU, USA and China GDP per capita, productivity and employment between 1991 and 2022

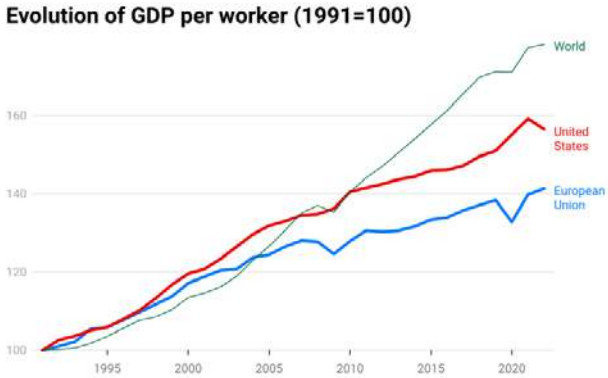
GDP



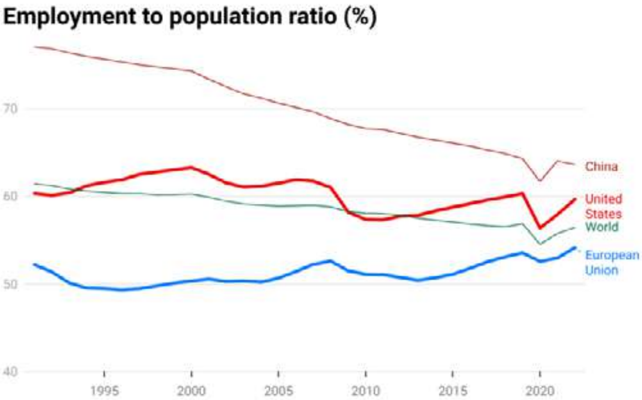


Productivity





Employment rates



Indexed with 1991=100 for GDP and productivity; shares for employment rates of the population above the age of 15. GDP and productivity figures produced with and without China for ease of comparison.

Source: Elaborated with World Bank data.

2.2.2 THE POLARISATION CHALLENGE

As in other parts of the world, economic development and growth in the EU have become increasingly concentrated in large urban areas. This is largely a consequence of the economic benefits of agglomeration and population density.[6] Investments in major urban regions have proven highly effective —especially compared to those in smaller or less densely populated areas— leading to increased productivity and higher wages. Research suggests that a doubling of city size is associated with a 4-10% increase in productivity.[7] Urban areas in the EU are forging ahead by attracting skilled individuals who would likely be productive in any setting.

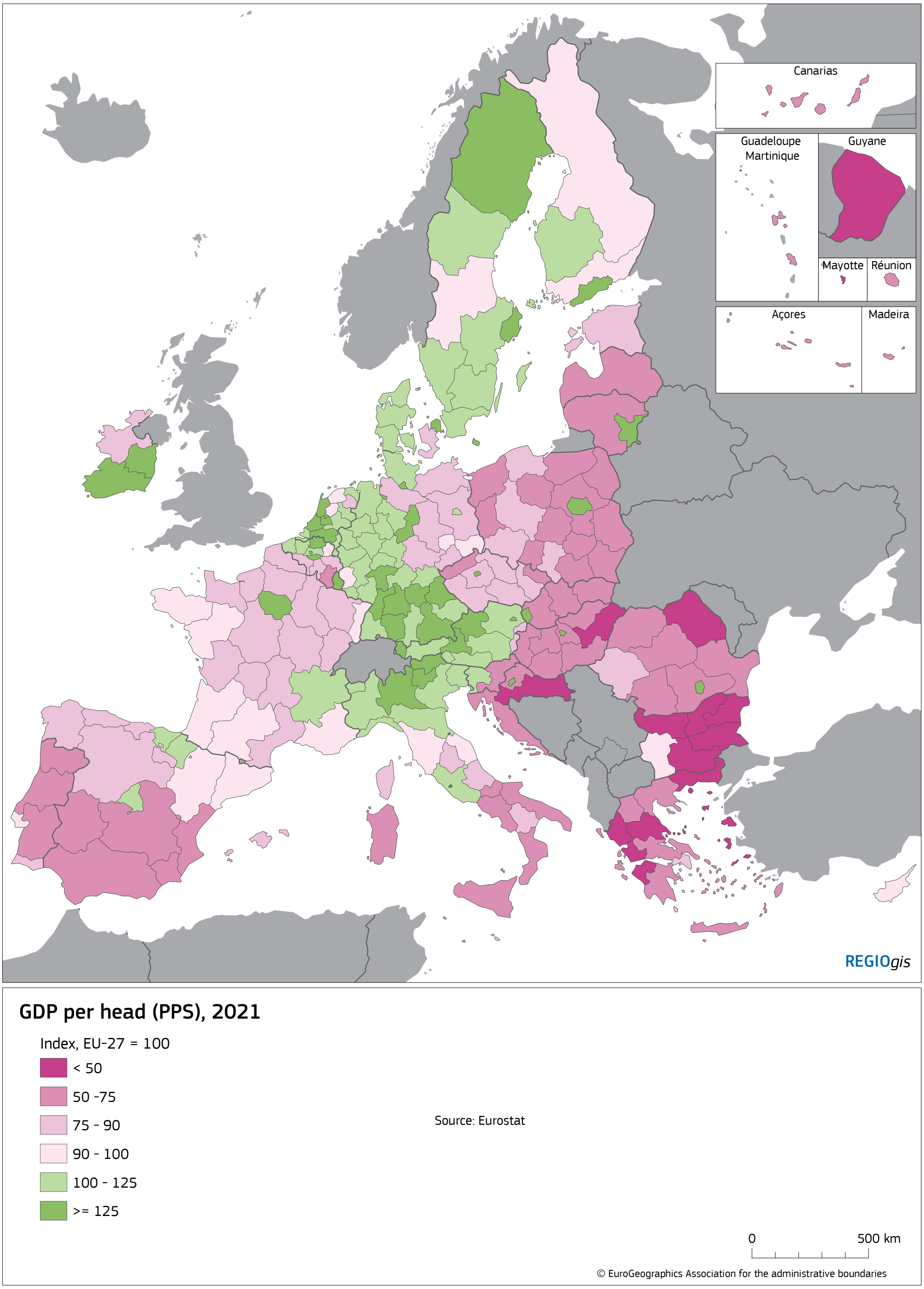
This urban-centric growth has both benefits and drawbacks. While it boosts the economies of large cities, it also exacerbates inter-regional inequality and contributes to the formation of development traps in regions.[8]

On one hand, a significant proportion of EU regions still trail in development terms. In 2023, 26.7% of the EU population inhabited NUTS2 regions where GDP per capita was below 75% of the EU average. This is the criterion for being classified as a less developed region under current Cohesion Policy. Many of these regions lay along the EU's eastern borders. But relatively low levels of development were also widespread throughout southern Europe and even surfaced in the traditional economic heartlands of the EU, including Wallonia in Belgium as well as Lorraine and Picardie in France (Figure 3).

On the other hand, a growing number of regions have been falling into development traps. A regional development trap refers to areas facing significant structural challenges to regain their previous economic dynamism, or to improve wealth and prosperity for their residents.[9] Regions in a development trap also underperform in terms of income, productivity and employment compared to their national and European peers.[10] There are development trap regions in many countries across the EU, although they are far less prevalent in central and eastern Europe. By contrast they abound in northern France outside Paris and across many areas of Italy, Greece and inland Croatia (Figure 4).

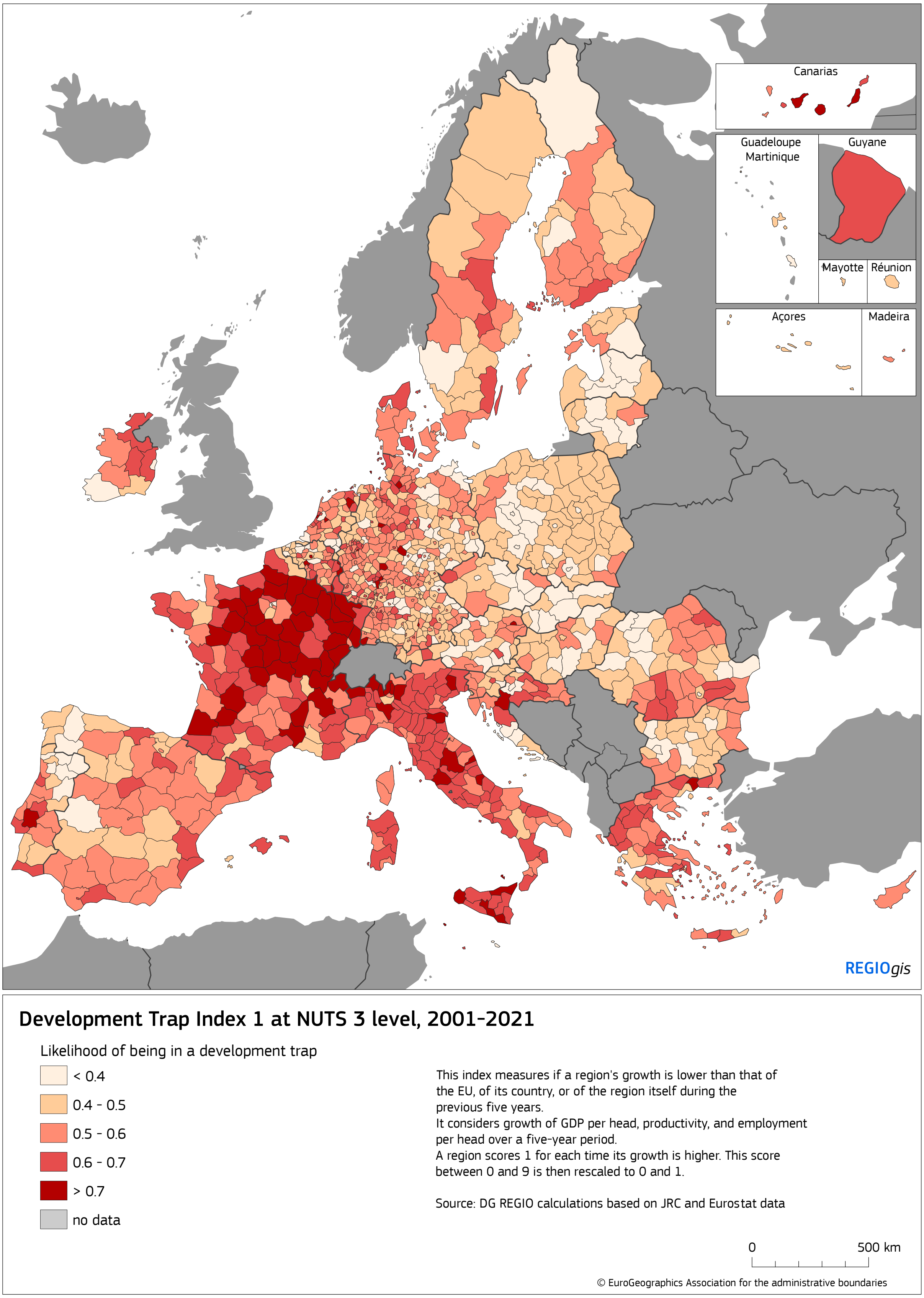
Development traps can happen at various income levels. Primarily, they affect rural and old industrial regions. Many of these regions, fundamentally in western Europe, have faced prolonged periods of economic entrapment, often going back to the 1990s. These regions have struggled to recover from economic shocks such as the great financial crisis and have lost population as individuals move to more prosperous regions.[11] However, development traps not only concern old industrial and rural regions. Although prevalent at middle-income levels in the EU, they can also appear at low and high income levels. Lisbon in Portugal, many northern Italian provinces in Lombardy and Piedmont as well as the Midlands region in Ireland are examples of wealthy regions in development traps (Figure 4). These regions, according to urban economics and agglomeration theories, should have been motors of development in their respective countries (Figure 4). In contrast, regions in central and eastern Europe have so far been mostly spared from falling into development traps. However, as they approach middle-income levels within the EU, the risk of waning economic dynamism and thus of falling into a trap increases.

Figure 3. GDP per capita levels at NUTS2 in 2021



Source: Elaborated with Eurostat REGIO data.

Figure 4. The regional development trap at NUTS3 level in the EU (average 2001-2021)



Map reproducing the Development Trap index 1 (DT1), as per Diemer et al. (2022) as an average for the period between 2001 and 2021.

Source: Elaborated by DG REGIO based on JRC and Eurostat data.

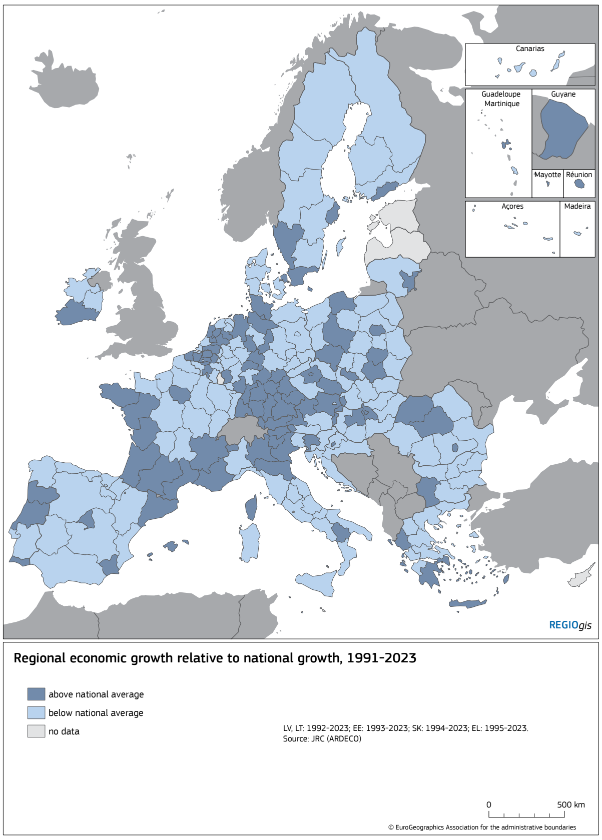
Moreover, in the EU a region in a development trap tends to stay there for relatively long periods, in contrast to the USA. This has been the case for many northern French regions, provinces in northern and central Italy, as well as parts of Slavonia in Croatia and Thrace in Greece, which have been in an almost constant cycle of entrapment since the turn of the century, if not earlier.

Development traps are not the sole challenge affecting regions within the EU. Talent traps also pose a significant threat, particularly in regions lacking enough skilled workers and higher-education graduates. These areas struggle to counterbalance the effects of a declining working-age population, exacerbated by brain drain and an ageing demographics. Such factors underscore the difficulty of retaining human capital, a crucial element for regional development.[12] In addition, structural traps emerge when regions face challenges in terms of their current economic structure and their capacity to adapt to future economic changes.[13]

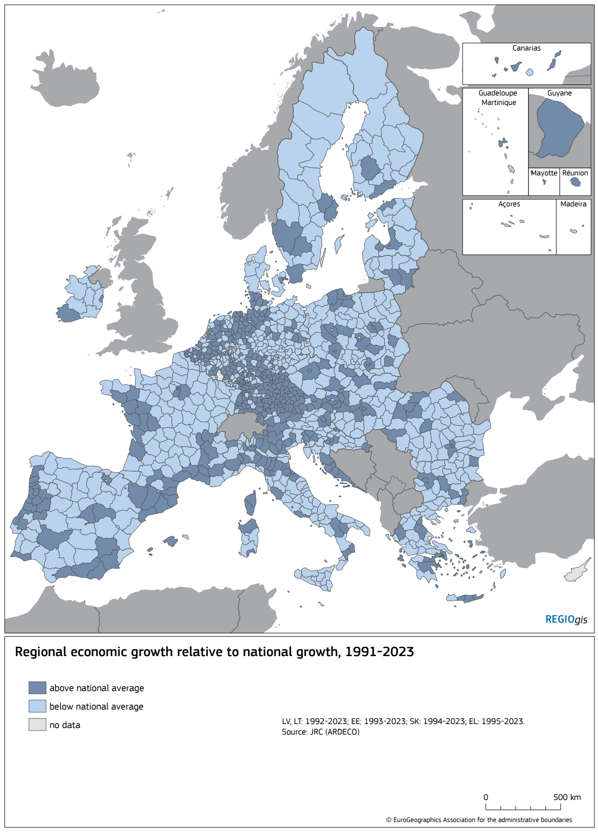
When stuck in low levels of development or in persistent development, talent and structural traps, firms and workers, acting in their own best interests, have limited incentives to up their game and invest in new skills or activities. This creates a vicious cycle where firms do not invest due to the absence of other competitive firms or appropriate skills in workers, and workers do not acquire specific skills due to a lack of job opportunities.[14]

Figure 5. Regions performing above and below their national average GDP growth between 1991 and 2023 (NUTS2 and NUTS3)

NUTS2



NUTS3



Maps produced at NUTS2 (left) and NUTS3 (right) regional levels to provide greater granularity.

Source: Elaborated with JRC (ARDECO) data.

Low levels of development together with development traps at low or intermediate levels of income can result in greater regional polarisation. Polarisation refers to increasingly unequal regional economic development within countries. While economic growth in central and eastern Europe has narrowed the economic gap between EU countries, persistent and often growing intra-country disparities remain in the EU.[15] Internal polarisation is now prevalent in most EU countries. In 23 of the 27 Member States, the capital region has performed above the national average in GDP over the last three decades. In many cases, the capital is the best performing region (Figure 5). The exceptions are Berlin, Vienna, Lisbon and Rome. Particularly in central and eastern Europe, where convergence towards EU GDP per capita levels has been paralleled by a high concentration of economic activity in a few cities and mostly the capital, many regions have been left behind (Figure 5).

Territorial polarisation is creating a fragmented economic landscape, which not only challenges the Union's cohesion but also undermines its economic competitiveness and political standing.

2.2.3 THE LACK OF OPPORTUNITIES AND BARRIERS TO INCLUSION CHALLENGE

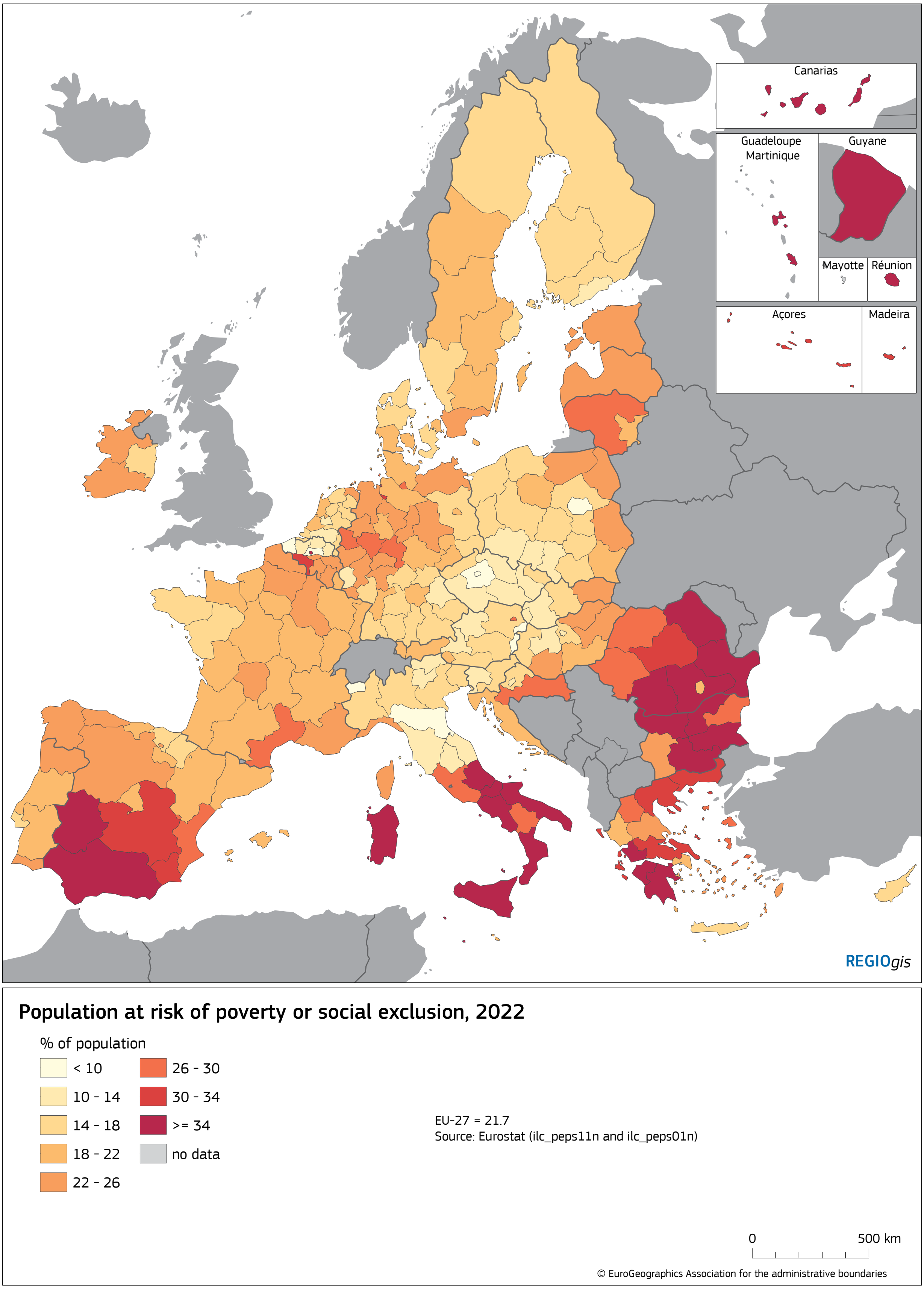
The third challenge is a lack of opportunities and barriers to inclusion. This is increasingly important and complex as it touches on socio-economic life, affecting individuals and communities across the EU.

Large economic inequalities across EU regions and growing regional disparities within countries are creating significant territorial pockets of scarce opportunities. Individuals stuck in places with low opportunities are at a considerably higher risk of poverty or social exclusion. A lack of opportunities is particularly hitting more groups in vulnerable situations, including young people, women, elderly workers, Roma people and other ethnic or religious minorities, as well as migrants. Young people, for example, are suffering from a lasting Covid-19 'pandemic scar', which is profoundly impacting their education, work prospects and mental health. This scar is likely to follow them for the rest of their lives. Their income has also substantially decreased, requiring action from governments and institutions to foster a youth-inclusive recovery.[16] Moreover, in 2022, 24.7% of children in the EU were at risk of poverty or social exclusion.

These and similar problems are seen in particular in less developed and development trap regions, seriously restricting their potential. The issue is acute in the southern and eastern fringes of Europe, from southern Spain through southern Italy and Greece to eastern Bulgaria, Romania and most of Lithuania. However, social exclusion problems are also rife in regions that have been stagnating, such as northern France, Charleroi in Belgium and the Ruhr area and northern Hessen in Germany (Figure 6).

Limited opportunities do not only apply to less developed or development trap regions. Even in the largest and most economically dynamic metropolitan areas, large pockets of people encounter a serious lack of opportunities.[17] Poor access to education and supportive services for those in vulnerable situations, as well as challenges related to housing affordability, increasing care needs which fall on family members and transport congestion further exacerbate these risks.

Figure 6. Population at risk of poverty or social exclusion in 2022



Source: Elaborated with Eurostat REGIO data.

This underscores the need for targeted spatial policies within these areas. In this case, direct investments in education, social services and areas affecting their participation in the workforce, would improve the well-being of young people and inclusion for those in vulnerable situations including people with disabilities.

Regions in the EU with low dynamism, a lack of opportunities as well as shrinking and ageing populations not only lag behind in economic dynamism, but they also suffer in terms of overall well-being. Across the EU, there remain significant regional differences in the quality of public services and infrastructure. Rural and declining areas, in particular, are confronted with access to education, healthcare, child and long-term care as well as digital infrastructure issues. People with disabilities are often locked out of society and opportunities through a serious lack of access to inclusive support services and the prevalence of institutional care in many Member States, despite some hopeful investments provided through Cohesion Policy funds. These problems contribute to a cycle of poverty, stagnation and decline affecting, in particular, career opportunities for women.[18]

Notable problems arise from differences in access to higher education. Individuals in more remote, often rural, regions have more limited access to higher education compared to those in metropolitan areas. Moreover, gaps in quality can make education outside cities less attractive and lead to poorer job market outcomes for graduates in stagnating and/or less developed areas. This, in turn, affects the movement of educated individuals from regions that lack sufficient opportunities in spite of benefits that may make these regions more attractive, like natural amenities or more affordable housing.[19]

The limited availability and reliability of transportation, especially public transport, worsens access not only to higher education, but also to jobs for residents, impacting low-income individuals in particular. Residents in areas with inadequate transportation experience lower well-being, poverty, worse lifetime achievements and reduced geographic mobility.

Moreover, the effects of limited opportunities not only persist in certain places but also across generations, transmitting disadvantages over time.[20] Regional inequalities for investment in skills, digital infrastructure, as well as access to finance and markets can further exacerbate the inadequate use of talent that is at the base of the EU's relative economic underperformance.

2.2.4 THE CHALLENGE OF ADAPTING TO A TURBULENT GLOBAL LANDSCAPE

We live in a turbulent world. Covid-19 as well as wars in Ukraine and Gaza plus a myriad of other conflicts have accelerated global trends towards geopolitical fragmentation, reorganised global value chains (GVCs) and the adoption of new digital technologies. This represents a significant 'globalisation shock' with profound implications for the global and European economies.

The Covid-19 crisis happened in a different global context to the financial crisis. During the latter, the world economy was highly integrated with record global Foreign Direct Investment (FDI) flows. When Covid-19 struck, FDI was already stagnating and geopolitical fragmentation was on the rise.[21] The impact between these two crises also differs significantly. In 2009, almost every sector and region experienced downturns in economic activity and employment. Conversely, the Covid-19 crisis had uneven impacts across sectors, territories and socio-economic groups. Some sectors such as tourism suffered greatly, while others like pharmaceuticals boomed.

Geopolitical tensions, particularly the war in Ukraine, also have profound implications for EU regions, especially affecting GVCs. The Russian invasion of Ukraine highlighted the intricate connections within GVCs and how disruptions in one area can ripple through an entire network, impacting different sectors and regions across the EU.[22] The interconnected nature of modern GVCs means industries across the EU that depend on inputs from Ukraine face supply chain disruptions affecting not only products but also services. These impacts vary significantly across local economies within the EU, depending on their integration with these value chains. Furthermore, investments from EU countries into Ukraine demonstrate the depth of economic ties that extend beyond mere trade. FDI contributes to the resilience and functioning of regional economies within the EU and highlights the need for diversification and strategic investment in these value chains.[23] These transformations have an uneven territorial impact that, in some cases, can intensify regional inequality within the EU.

Moreover, the future of GVCs is increasingly shaped by environmental concerns and legislation, as well as a shift towards more sustainable practices. A significant proportion of global emissions is linked to international trade, prompting countries and regions to pay closer attention to the carbon footprint of trade and avoid carbon leakage. This trend is more pronounced in higher-income OECD countries, which are major importers of carbon-intensive products, while lower-income non-OECD countries are typically exporters.[24]

As the world moves towards net-zero emissions, 'green' GVCs are emerging. These represent a new direction in global trade, focusing on green goods and services. Key players in this transition are lead GVC firms in which are increasingly held accountable for emissions throughout their supply chain. Such firms, with substantially higher supply chain emissions than direct emissions, can drive major changes towards sustainability.[25] Sustainability in GVCs can be achieved through enterprise initiatives, market forces, government policies and legislation. For instance, Germany has proposed laws requiring companies to adhere to specific human rights and environmental standards in their supply chains.[26] This offers a clear rationale for Cohesion Policy investment to support development and links to harness green GVCs for sustainable regional development.

Greener GVCs are likely to alter the competitive landscape of regions (especially less developed regions) and countries. For example, regions rich in renewable energy sources, like Norrland in Sweden, are developing new specialisations in industries such as steel production, which is becoming increasingly tied to renewable energy.[27] In contrast, many regions dependent on carbon-intensive industries, like Lausitz-Sachsen in Germany or Upper Silesia in Poland, may face challenges adapting to this shift.

Finally, the intersection of the Fourth Industrial Revolution, particularly advances in automation and artificial intelligence (AI), with GVCs presents both challenges and opportunities. The policy domain is increasingly focused on Industry 4.0 and its impact on work-from-home patterns. These developments are reshaping GVCs and have implications for regions that have traditionally relied on low-cost labour.[28] Technological advances are influencing the location of economic activities, including production and R&D centres. This change is primarily driven by a focus on AI and robotics as drivers of economic development.[29] However, the impact on jobs and the organisation of both domestic and global value chains is complex. While estimates suggest a significant proportion of jobs in the US face the risk of computerisation, a lower percentage is expected in other OECD countries, indicating that a reorganisation of multinational enterprise activities might be less challenging for growth and jobs.[30]

In this turbulent context, less developed and vulnerable regions face particular challenges. Slow growth in merchandise trade, coupled with higher entry barriers, could result in lower GDP growth. Automation might intensify unemployment and curtail sources of development for less developed regions by displacing unskilled and routine work.[31] In response to these challenges, regional policymakers must emphasise upskilling and education to align with market demands. The rise of AI and automation suggests less need for highly skilled workers, but these technologies also require people capable of working with smart machines. Such changes will inevitably trigger a shift in development strategies and educational priorities to accommodate the changing demands of the labour market.[32] This redeployment of skills is more difficult in less developed and vulnerable regions, where strategic and administrative capacities are lower, offering a clear rationale for Cohesion Policy intervention in this area.

Hence, strategies that account for the unique position of EU regions in evolving GVCs and investment networks as well as global technological transformations are needed. The EU has to anticipate future trends in sustainability, automation and AI by pro-actively engaging with global opportunities. This requires dedicated actions and tools cutting across multiple policy areas including moving from regional development to trade and investment policies, upskilling the workforce and rethinking traditional growth models. Integrating these technologies into GVCs and trade policies requires harnessing the potential for productivity and growth while also addressing challenges to employment and local economic development.[33]

2.3 THE RISKS

2.3.1 ECONOMIC RISKS

The challenges presented above entail considerable risks for Europe's competitiveness, both internally and on the global stage. Some of these risks include long-term economic stagnation and territorial polarisation that will prevent the EU from unleashing its economic potential, which is spread across its geography.

Historically, public policy has tended to bet on 'superstar' cities. These large urban agglomerations have been considered as the economic 'motors',[34] both in Europe and elsewhere. Their less developed and stagnating counterparts, by contrast, have been left in their shadow.

Based on prevailing economic thought, most policies aimed at increasing innovation and productivity as well as promoting competitiveness, especially at national level, have been implemented under the assumption that territorial inequalities were merely temporary, a crucial phase in the grander scheme of economic evolution. This perspective was rooted in the view that the agglomeration of activity is a transient stage to trigger rapid economic development in areas deemed to have the greatest potential. The logic is straightforward: the initial concentration of economic activities in certain regions would eventually lead to a diffusion of these activities to other, less developed or less dynamic regions.[35] Such a diffusion of innovation and activity would occur through 'economic stabilisers', including knowledge spillovers and the geographic mobility of workers.[36]

However, this optimistic view has been contradicted by reality. As the challenges presented in the previous sections have underlined, the divergence between highly successful places and other regions is not a fleeting discrepancy but has become a deep-seated and structural problem. Territorial disparities not only persist; they have become embedded within the EU's economic landscape.[37]

The persistence of such territorial differences in the EU is a consequence of various factors such as negative economic shocks, technological evolution and shifts in trade patterns.[38] European integration and the Single Market have not inherently ensured uniform prosperity. Instead, they have led to selective responses to wage and price changes, further entrenching territorial inequality.[39]

The role of spillovers, once hailed as key to reducing regional disparities, has also been called into question. Spatial economic and knowledge spillovers are a process where economic activity or knowledge creation in one area spreads across regions through links, networks, innovation and opportunities. The dominant expectation was that this would lead to convergence between more dynamic economic hubs of the EU and the continent's remaining regions. However, this has not materialised as expected.[40] Geographical proximity within and between regions does not automatically translate into knowledge spillovers or innovation diffusion. Instead, it requires strong organisational channels such as firms and dense knowledge community networks that are frequently absent in less dynamic cities and regions.[41] EU economic hubs remain much more capable of absorbing resources from other parts of the EU than of diffusing the additional wealth and economic activity that is generated there.[42]

Compounding the issue is an overestimation of the capacity and willingness of individuals to migrate. Urban economics has often suggested mobility as a solution to economic challenges, proposing that people should relocate to areas with more opportunities. However, this overlooks several complexities and real-life barriers to mobility. Emotional attachment, age, skill level, intergenerational solidarity, home ownership and other socio-economic factors play a significant role in an individual's decision to move.[43]

Yet migration, especially when a lack of opportunities in places of origin has put would-be migrants at a disadvantage, may not always be feasible or beneficial for those living in less developed or development trapped regions.[44]

Finally, a critical aspect that has been consistently undervalued is the economic potential of less developed regions. The prevailing economic paradigm has traditionally deemed investment in these areas as inefficient,[45] if not an outright waste of scarce resources. This approach, however, fails to recognise the latent growth opportunities in these neglected areas. Regions once considered underdeveloped have the potential to become economic leaders.[46] It has been calculated that 78% of EU GDP originates outside large core cities.[47] This is not far off the share for the OECD as a whole, where 73% of economic growth during most of this century has been produced outside the largest agglomerations.[48] Intermediate and predominantly rural regions, the very places that have been disregarded as centres of economic dynamism, thus drive a considerable share of economic growth.[49]

The narrative of economic development in the EU is replete with examples of regions that have defied the odds. The transformation of Ireland over the past three decades, the emergence of the BioNTech vaccine in Mainz, the resilience of German 'hidden champions'[50] and the rise of world-leading firms like IKEA and Inditex in a small town in Sweden or the suburb of a medium-size city in Spain respectively, exemplify the remarkable potential of many vulnerable areas. These examples not only challenge conventional wisdom but also showcase the extraordinary resilience and innovation capabilities of firms —very often small and medium-sized enterprises (SMEs) and start-ups— in regions often labelled as backwaters.[51]

By continuing to neglect these areas, EU policies risk missing out on growth opportunities and worsening a competitiveness problem partially derived from a lack of belief in the economic potential of these regions. The assumption that prosperity in certain areas would naturally permeate across a country and, subsequently, to the rest of the EU has contributed to insufficiently targeted investment, particularly for regions that have fallen into development traps. Yet, these regions have not lost their potential overnight. This negligence not only stifles their growth potential but also abandons the opportunity to exploit their unique strengths and capacities for innovation and resilience to benefit the whole of the EU.

2.3.2 SOCIAL AND POLITICAL RISKS

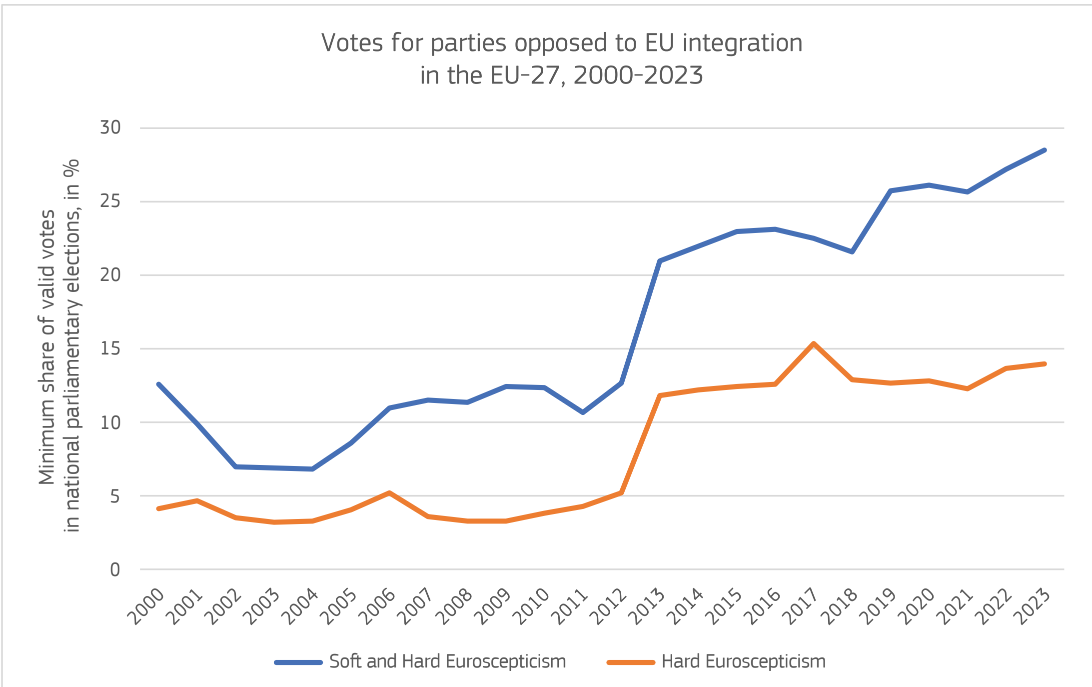
As important, if not more important than the economic risks are the social and political risks. Discontent is growing across the EU. The reasons for this increasing discontent are manifold. But there is a wealth of research connecting long-term stagnation and lack of economic progress in many areas of the continent to a rise in discontent[52] and loss of faith in the European project.[53]

A broad 'geography of discontent' is on the rise in long-term declining regions of Europe as well as in many small cities, towns and rural areas.[54] People in places undergoing long-term economic decline, that have seen jobs go, more talented people leave, dwindling or disappearing public services, places where public transport and school buses have been cut, schools and hospitals closed, where supermarkets and bank branches are shutting down because they are no longer profitable, are more than ever ready to manifest discontent.[55] This often translates into an aversion towards European integration.[56] Many people in such regions no longer buy into the European project, especially as they perceive and are often told by politicians that European integration is at the heart of their woes.[57] Brexit was the ultimate manifestation of this brewing discontent against a system they perceive no longer benefits them.[58]

In particular, the intensity and duration of development traps have profound implications for the sense of despair and marginalisation among the inhabitants of these regions.[59] This is further exacerbated when these regions compare their plight to more prosperous EU areas, leading to a sense of relative deprivation.[60] Prolonged territorial polarisation can escalate social conflicts and political instability and contribute, in turn, to the erosion of the middle class. This hinders economic growth and investment, perpetuating a vicious cycle of discontent and disaffection with the European project.[61] The sense of despair is not just limited to economic hardship but also expands to a feeling of being politically disenfranchised and socially alienated. Such malaise is not merely a backdrop but a fundamental driver of mounting support for ideologies that either seek to undermine the EU or, in their most radical form, advocate for its demise. Discontent has been capitalised on by those who oppose the European project.

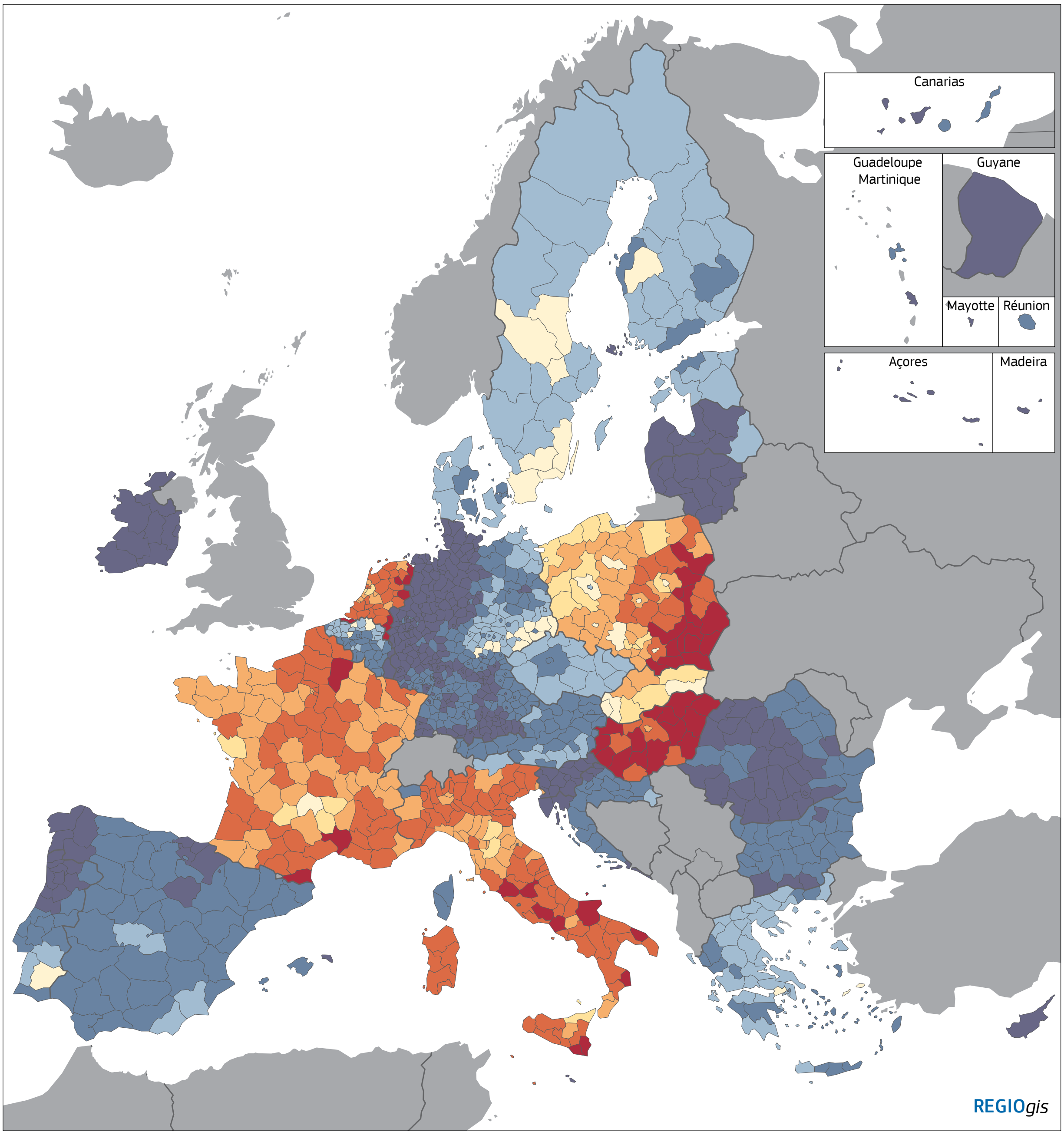
A rising disquiet with the European project is becoming apparent in various forms, notably the surge in support for parties hostile to the EU in national and European elections. Over the past decade, there has been a significant increase in the electorate's backing for soft and hard Eurosceptic parties. Soft Eurosceptics oppose specific EU policies, while hard ones frequently outright challenge the EU's viability and existence. Both types of parties gained traction by rallying this growing discontent with deep geographical roots. In 2003, hard Eurosceptic parties garnered less than 3.2% of the vote in national elections, while the combined vote for both soft and hard Eurosceptic parties was around 6.9%. By 2023, these numbers had risen dramatically with hard Eurosceptic parties just shy of 14%, while hard and soft Eurosceptic parties reached 28.5 % (Figure 7).

Figure 7. Votes for parties sceptical of European integration in national elections. Aggregate for EU27 (2000-2023)



Source: Elaborated by DG REGIO with data from EU-NED database and national administrative sources. Degree of Euroscepticism as per Chapel Hill Expert Survey (2019).

Figure 8. Votes for Eurosceptic parties in national parliamentary elections, 2019-2023



Minimum share of votes for soft and hard Eurosceptic parties, 2019-2023

% of valid votes

- <= 10
- 10 - 20
- 20 - 28.51
- 28.51 - 35
- 35 - 40
- 40 - 50
- 50 - 60
- > 60

EU-27 = 28.51
BG, EE, EL, ES, LU, NL, PL, SK, FI: 2023
DK, FR, IT, LV, HU, MT, PT, SI, SE: 2022
CZ, DE, CY: 2021
IE, HR, LT, RO: 2020
BE, AT: 2019
Source: DG REGIO based on EU-NED database, national administrative sources and Chapel Hill Expert Survey 2019

0 500 km

Source: Elaborated by DG REGIO with data from EU-NED database and national administrative sources. Election data corresponds to the latest national legislative election in the 2018-2023 period. Degree of Euroscepticism as per Chapel Hill Expert Survey (2019).

Although the geographical rise in opposition to the European project is not uniformly distributed across the continent, it is particularly pronounced in areas that have experienced the most acute economic stagnation or have fallen into prolonged development traps.[62] Contrasting the economic trajectories of regions like north-eastern France, parts of Italy and Greece with more dynamic central and eastern European countries illustrates this stark divide.[63] However, it is the intertwining of this economic backdrop with cultural and identity issues that amplifies the social and political risks. The cultural estrangement felt by certain demographic groups that are often male, older and less educated, is magnified by economic disenfranchisement, leading to heightened susceptibility to anti-EU rhetoric.[64] This creates a fertile ground for within-country and pan-European enmity.

More cohesion is, therefore, not just needed to address economic inequality, but also to promote more harmonious development that offsets social and political disquiet.[65] More cohesion can contribute to stem the rise in discontent and restore faith in the European project.[66] It can also foster greater stability, create a less volatile and risky political environment and prevent discontent from reaching extremes such as Brexit, which can unravel all the benefits achieved through economic integration and the Single Market.[67] Promoting cohesion becomes, therefore, vital to restore confidence and unity within the EU. Greater cohesion will also enhance the capacity of the EU to implement its Green Agenda. Recognising and reducing economic inequality as well as addressing the developmental, social and political challenges faced by various regions is crucial to countering the rising tide of Euroscepticism[68] and reaffirming faith in the European project.

2.4 COHESION AND THE FUNDAMENTAL VALUES OF THE EUROPEAN UNION

Finally, the need for cohesion goes well beyond promoting economic competitiveness and the EU's capacity to fend off the rise in discontent. Above all, cohesion is at the heart of European values and essential for its sense of common purpose. Europeans have a deep aversion to inequalities, a principle so significant that it is enshrined in the Preamble to the Consolidated Version of the Treaty on the Functioning of the EU. In that, EU legislators express a commitment to "strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions." Cohesion Policy is the prime EU policy working towards the cohesion objective as laid down in the Treaty (Article 3, TEU). It contributes to solidarity and a strengthened 'togetherness' (a notion that is, perhaps, better reflected in the German word *Zusammenhalt*) within the EU. This is further reinforced in Article 174 of the Treaty, which states that "In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion."

Cohesion is, therefore, much more than just a concept, a policy or a strategy. It is ingrained in the European DNA. It is crucial for future unity, solidarity and progress within the EU. This unity and solidarity have enabled and will continue to enable Europeans to confront some of the greatest challenges facing them and advance towards common objectives.

European societies are in the midst of structural transformations which will outwardly have a profound impact on Europe's territories and people's lives. Such transformations will create new disparities if not duly addressed. People and places are not equal in the face of such structural challenges. Without effective cohesion, achieving these objectives is unlikely.

In light of this new EU political agenda, economic, social and territorial cohesion remains more than ever a fundamental objective and principle of the EU. It needs to be reshaped, reinforced and translated into EU policies. Cohesion is vital not only as an objective in itself but also as a precondition for development and economic dynamism, as well as fair green, digital and demographic transitions, a positive transformation of the EU and for averting discontent. Rising inequalities might turn people against common objectives and efforts.

In summary, cohesion is not just a fad or a policy objective. It embodies the fundamental values of the EU. It is about ensuring that all EU citizens, wherever they live not only benefit from, but also contribute to, its collective growth and stability. Cohesion's value lies in its transformative potential and its capacity to foster a sense of community, solidarity and shared destiny among the EU's diverse people and regions. Cohesion is the glue that binds us together, a glue that creates a unified, inclusive Europe where every citizen feels a sense of belonging and engagement with its wider and ambitious objectives. Without it, the joints of the European structure start to creak.

As the EU faces structural challenges both old and new, cohesion is the way to steer the EU through these, providing both a beacon of hope and a pathway towards a more equitable, prosperous and united future.

3 WHAT IS COHESION POLICY AND WHAT SHOULD IT DO?

Key recommendations

- Cohesion Policy is the largest and most successful territorial development policy in the world and involves the biggest budget globally to reduce disparities in development across regions.
- It is a policy for all.
- A systemic and dynamic policy that taps into the EU's untapped economic potential, especially in less developed and vulnerable areas, enhancing development and competitiveness throughout the continent and encouraging the generation and diffusion of economic activity.
- A policy that promotes territorial fairness.
- A policy that addresses the main structural challenges of the EU: low development; long-term economic stagnation; and lack of opportunities across all regions.
- A policy that builds bridges across the EU's internal and external borders.

Economic, social and territorial cohesion is crucial for the EU to successfully address its structural challenges. But promoting cohesion cannot be left to the market alone. Market forces, if left unchecked, could increase divergence and inequality among regions, potentially leading to development traps and discontent. Automatic stabilisers in the market fall short of correcting spatial disparities, thereby trapping many European regions and, consequently, the EU as a whole in a low-level spatial equilibrium. This scenario arises from coordination failure among economic actors and underscores the necessity for policy. Hence, policies to support market mechanisms alone do not suffice to increase EU competitiveness, stem territorial polarisation or prevent internal social and political tensions from escalating.

Recognising this implies the need for a policy specifically aimed at managing regional development. In other words, Cohesion Policy is at the heart of European policy architecture. Yet, as we will argue, such a policy cannot be regarded as 'business as usual'. Its aim should not be to merely 'support' or 'compensate' vulnerable regions or the implementation of the internal market, but to invest in them to mobilise their economic potential and help them reap the benefits of the green, digital and demographic transitions.

It should not be a reactive policy but one that is proactively transformative. In this respect, Cohesion Policy should not just aim at marginal changes for improving well-being but should focus fundamentally on enhancing regional economic performance across the continent, levelling up not down.[69] Transformative policies require a comprehensive appraisal of both direct and indirect effects. They should tackle the challenges of inadequate competitiveness by addressing low levels of development, economic stagnation and any lack of opportunity wherever they happen.[70]

3.1 WHAT IS COHESION POLICY?

3.1.1 THE POLICY

Cohesion Policy is the main tool that the EU has given itself to make the most of economic opportunities across the continent. It is the largest and most successful territorial development policy in the world and involves the biggest budget globally to reduce disparities in development across regions. According to the historic EU payments record, from the reform of Structural Funds in 1989 until 2023, the EU invested EUR 1,040 billion for this purpose. An additional EUR 392 billion is now being invested during the full 2021-2027 programming period.

The primary objective of this investment has been to reduce development disparities between EU regions by creating a more balanced and equitable geographical distribution of economic activity. Cohesion investment is aimed at ensuring that all regions can advance and contribute to the prosperity of the Union.

Initially, the focus of Cohesion Policy investments was on developing transport and environmental infrastructure. This was crucial to laying the foundations for economic growth and sustainability. However, particularly in central and eastern Europe, there is more work to be done on this front. Over time, Cohesion Policy has evolved to encompass a broader array of challenges, reflecting the changing priorities of the EU and the diverse needs of its Member States. Policy goals now range from poverty reduction to sustainability, marking a shift towards more comprehensive and holistic development strategies that consider not only economic growth but also social and environmental factors. By integrating these dimensions, the EU intends to ensure sustainable, inclusive and resilient growth that benefits all EU citizens and regions, addressing contemporary challenges and setting a robust foundation for future development.

3.1.2 ACHIEVEMENTS

Has this investment paid off? The effectiveness of EU Cohesion Policy in delivering development and reducing disparities between territories has been the subject of extensive study and debate. It has also elicited controversy. Considerable academic research has highlighted that the policy has delivered economic growth.[71] This view was, however, contrasted by other research which reported insignificant[72] or even negative impacts.[73] More recent analyses, however, have leveraged advanced policy evaluation techniques to disentangle the 'net' impact of the policy from other possible confounding factors.[74] This new research generally uncovers positive effects of Cohesion Policy, particularly in terms of economic growth and employment[75] as well as in areas like innovation and transport infrastructure.[76]

The extent of the impact of Cohesion Policy depends on several factors, including the quality of local governance,[77] variations in regional conditions, the amount of funding received[78] and the local economic structure.[79] Cohesion investment has had a direct impact in terms of improved profitability, innovativeness and employment in assisted companies compared with non-assisted ones.[80] The evidence also highlights the significant differences in Cohesion Policy impacts between Member States and the importance of considering country-specific factors when assessing the policy's success.[81] This calls for a tailored evidence-based approach to suit the unique needs and circumstances of each region while learning from well-established cases of success.

On the whole, different strands point to returns of intervention that are highly dependent on the type of investment.[82] Academic research also underlines the policy's capacity to learn from past interventions and become more effective.[83]

Through Cohesion Policy, many regions in the EU have overhauled their infrastructure, fostered innovation in local industries and generated sustainable employment. The policy's investments in human capital, technology and innovation have contributed to a more dynamic and competitive EU. The policy has laid the foundations for sustainable development, markedly reducing the proportion of the European population residing in countries with levels of development below 75% of the EU average. This figure declined from nearly 25% of the EU population in 2000 to just over 5% in 2023 (Table 1). However, rising within-country polarisation has constrained the reduction in the share of Europeans living in less-developed regions, which decreased from 28.8% to 26.7% during the same time span (Table 1).

In the social and political realms, Cohesion Policy has also played a critical role in fostering trust and engagement, as well as bolstering confidence in the EU.[84] This is particularly the case in more vulnerable and less developed regions but also in acceding Member States. By tangibly improving infrastructure, access to services and quality of life, the policy demonstrates the EU's promise to all its citizens, irrespective of where they live.

Table 1. EU population living in countries and regions with levels of GDP 75% or lower than the EU 27 average

	2000		2023	
	Population	Share of EU (%)	Population	Share of EU (%)
EU population living in countries with levels of GDP 75% of lower than the EU average	105,551,755	24.64	24,263,973	5.38
EU population living in NUTS2 with levels of GDP 75% of lower than the EU average	123,453,591	28.83	120,457,320	26.73

Source: own elaboration using ARDECO data.

Inset 1

Cohesion Policy as an inspiration for territorial development elsewhere

Cohesion Policy is increasingly seen as a model to emulate. It has established a benchmark for other development initiatives globally. In this inset, we review how a renewed emphasis on development in both the US and China has taken on a strong territorial aspect, echoing, either explicitly or implicitly, developments in the EU.

In the US, the influence of European Cohesion Policy is apparent in the growth of place-based industrial policy under the Biden administration. The US strategy encompasses legislative measures —the American Rescue Plan Act (ARP), Infrastructure Investment and Jobs Act (IIJA), CHIPS and Science Act, and Inflation Reduction Act (IRA)— totalling USD 80 billion in investment. In these acts, place-based industrial policy aims to promote economic transformation through focused interventions in specific regions and industries.[85]

The US has chosen to tackle regional disparities while simultaneously boosting domestic supply chains and enhancing global economic competitiveness. Interventions often target less developed or industrially declining areas, aiming to activate economic shifts from lower- to higher-productivity sectors. This involves harnessing local talent, suppliers, knowledge and ecosystems for development.[86] Inspired by the European model, the effectiveness of these policies depends on recognising and utilising each area's unique mix of talent, suppliers and knowledge. Local interventions are founded on tailoring development investment to the specific needs and potential of local communities.

The resurgence of place-based industrial policy in the US also aims at strengthening overall competitiveness in the country by reinforcing supply chains and addressing climate change.

Cohesion Policy has also influenced developments in China. The National Poor County (NPC) Programme sought to reduce regional economic disparities by offering targeted support to 592 identified poor counties. Implemented in a highly decentralised fashion, the NPC Programme provided significant intergovernmental transfers and credit assistance. The chosen counties benefitted from preferential treatment in various respects, as part of China's wider poverty reduction efforts under the State Council's Priority Poverty Alleviation.[87]

In summary, Cohesion Policy has established a benchmark and continues to stimulate the incorporation of territorial aspects into broader economic strategies worldwide. The focus on localised, customised approaches in European, American and Asian contexts underlines increasing recognition of the need to address disparities and utilise local potential for sustainable, inclusive growth.

3.1.3 BARRIERS TO COHESION

Despite its success, Cohesion Policy has faced a series of obstacles that have limited its effectiveness. These barriers are rooted in both organisational and governance aspects, as well as in the general perception of the policy.

At the core of these issues lies a mismatch between the policy's objectives and its implementation.[88] This gap is limiting the policy's ability to achieve its intended outcomes, as, at times, the policy has been used to compensate some regions for not benefiting as much as others from European integration, or to deal with emergencies, rather than effectively tackling structural challenges and increasing growth in all regions. Insufficient focus on growth and development, particularly for regions that are economically declining or stagnating, may dent their long-term economic sustainability.[89]

Furthermore, the policy has not always been able to pay enough attention to the diverse capabilities of different regions.[90] 'One-size-fits-all' approaches often failed to recognise and leverage the unique strengths and challenges of individual regions and contributed to the underutilisation of local knowledge and expertise.[91] Such an approach led to interventions that did not always align well with specific regional needs. Moreover, the implementation of place-based approaches and the capacity to develop synergies with other policies have been limited by binding conditions imposed on the policy. These 'conditionalities' have often been applied disregarding objectives of the policy.[92] All these barriers have complicated the use of integrated approaches, meaning their potential has not yet been fully exploited.

On the institutional side, policy implementation has become more complex, sometimes focusing more on processes than results. This complexity has tended to slow down processes and diminish the policy's efficiency and responsiveness.[93] This problem has been compounded by coordination failure, including a lack of coordination with other EU and national policies.[94] EU policies frequently operate in silos, lacking a synergetic approach that could enhance their collective impact on regional development. There has been a lack of integration in the EU policy architecture,[95] with different policies not always working together in a mutually beneficial way[96] As with other policies, administrative capacity and corruption problems have also affected its impact.[97] These barriers notwithstanding, there has also been considerable progress, for example, concerning the improved link between structural, economic and social interventions using Cohesion Policy funds.

On the perception side, although the policy is popular with the public, a general low level of citizen awareness about EU regional policy remains.[98] Many EU citizens, particularly in so-called donor countries, remain ambivalent about its specifics and impact. This lack of awareness and understanding is partially responsible for the policy being perceived as a sort of 'support' or 'appeasement' policy, almost relegating it to a secondary status.

These barriers have limited the impact of the policy on narrowing interregional gaps.[99] In areas such as innovation, there has been a widening gap in capabilities within Europe, pointing to the need to enhance the diffusion of innovation at national and regional levels, particularly in less developed and/or vulnerable regions.

3.2 WHAT SHOULD COHESION POLICY DO?

To maximise its impact, Cohesion Policy needs to emphasise its nature as a policy to develop regions and improve economic convergence and social cohesion by setting vulnerable regions on the path to sustainable growth, rather than as a mechanism for balanced development.

This is an important nuance, as the current Cohesion Policy can do more to unlock the EU's full economic potential. Cohesion Policy needs to tap more effectively into the unique potential of each territory of the EU, to facilitate economic growth in regions targeted by the policy as well as more holistic development in the EU.[100]

It needs to go beyond current achievements and undergo substantial reform. This requires an adjustment of focus to put the policy at the heart of the aims and goals of the EU. It also needs substantial changes to address organisational and governance issues, as well as to change its perception as a 'support' policy. In this section we address what a revamped Cohesion Policy should do, before going into how the policy should change in the next chapter.

3.2.1 A POLICY FOR GROWTH, JOBS, EQUALITY AND OPPORTUNITIES

Cohesion Policy is the EU's strategic bet on unleashing economic potential across its territory. It should be used for the purpose it was originally designed for, as a tool for "reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions." That is as a means to identify and ignite economic possibilities, particularly in less developed regions and regions that, for different reasons are, or have become vulnerable. These range from rural and geographically peripheral parts of the EU to areas that have historically been growth engines for the continent but are experiencing industrial transitions (Article 174 of the Treaty).

The policy should therefore mobilise economic potential by tackling structural bottlenecks. Overlooking economic potential is a luxury the continent cannot afford if it is to address its competitiveness challenge.

Mobilising economic potential in every part of the EU does not mean the policy should forfeit its ultimate objective of promoting harmonious development. By fundamentally targeting the mobilisation of economic potential in less developed regions and those stuck in long-term development traps, Cohesion Policy can create a virtuous circle of development while concurrently promoting convergence and spreading prosperity and opportunities across the whole of the EU. Cohesion Policy should, thus, transcend the traditional notion of development support by advancing vulnerable regions towards higher levels of economic and social development.

Cohesion Policy's ambitions should also go beyond economic growth. Enhancing the quality of life and access to opportunities for all people in the EU needs to be at the heart of the policy. This involves aligning growth-focused goals with equality and equitable opportunities, bridging economic disparities and ensuring that prosperity reaches everyone in the EU. This requires a nuanced understanding of regional differences and the development of investment strategies and reforms that respect these variations. It should support human capital development, to increase both productivity and employment. It should also be sensitive to the differential treatment of certain groups of people which create barriers for their personal progress.

Ultimately, Cohesion Policy should shape an EU where every region contributes significantly to the Union's economic prosperity and competitiveness, irrespective of its starting point. A revamped Cohesion Policy should embody the commitment to an inclusive approach to prosperity, building a Union where each member, region and citizen actively participates in a shared, prosperous future. Its success is vital for enhancing well-being across the EU, leading to greater economic efficiency, equity and sustainability.

3.2.2 A SYSTEMIC POLICY FOR DEVELOPMENT ACROSS THE EU

Europe's economy is multifaceted and, to thrive, it needs to fire on all cylinders. This entails a commitment to innovation (including social innovation), productivity and high-wage growth, fully utilising local talent and fostering an environment conducive to investment and the development of economic activity.

Until now, Cohesion Policy has concentrated on the least developed regions of the EU, with a GDP per capita below 75% of the EU average. While this approach makes sense from the point of view of promoting regional convergence and meeting the EU Treaty obligations to 'least favoured regions', it is narrow and limited by classifying regions into categories based on their economic status. It also restricts the capacity of the EU to consider development from a systemic perspective, hence reducing the returns of the policy. Moreover, a focus on the least developed regions has happened at a time when, as we have seen, economic dynamics and national policies have increased the concentration of economic activity in national capitals and major urban centres. The internal polarisation resulting from divergence within countries has put Cohesion Policy on a backfoot, attracting criticisms by those who claim that, by aiming to reduce internal disparities, the policy generates market distortions.[101]

In addition, between more dynamic urban centres and less developed regions lies a spectrum of territories that have been largely overlooked by the policy. Many intermediate cities, towns and rural areas lack policy visibility compared to both large cities and less developed regions. Many of these areas are entangled in a development trap, which stifles their economic potential and creates profound economic, social and political tensions.

To maximise the EU's development potential, Cohesion Policy needs to stop compartmentalising regions and areas of intervention, broaden its focus and adapt its strategies to ensure that all territories in the EU, regardless of their level of development, are prepared to meet structural challenges and contribute meaningfully to aggregate development.

Investment should be primarily targeted to the least developed and more vulnerable EU regions. However, the policy needs to acknowledge that development functions as a system and, for the entire system to work effectively, all its mechanisms need to be properly oiled. This holistic perspective ensures that every component within the development system contributes to its overall functionality and success.

Also central to a revamped Cohesion Policy should be the proactive identification and stimulation of economic opportunities, aligning them with the long-term structural challenges for the EU. Rather than just redistributing wealth for equality, the intention should be to generate a ripple effect, where strengthening local economies props up the overall economic vitality of the Union. This needs to be achieved through spatially differentiated investment strategies tailored to the specific needs of regions. It should also involve a systemic view of regional development and convergence mechanisms. In this systemic view of development, it is important to consider the link between vulnerable regions and dynamic economic agglomerations in Europe. Attention should also be paid to the risk of relying solely on 'investment of excellence' strategies, which often results in investing in already well-developed regions, further polarising economies.

In Europe, as in the rest of the world, large urban areas have become increasingly interconnected among themselves but disconnected from their geographical hinterlands, weakening the mechanisms for regional productivity to catch up.[102] Regional spillovers are simply not working well enough[103] which damages efficiency, poses significant challenges to regional development and social cohesion, and is leading to internal tensions within Member States and the EU as a whole.[104]

Cohesion Policy should contribute to avoiding such a situation by investing, first, in the creation regional ecosystems in vulnerable regions that facilitate the absorption of spillovers. This should focus on strengthening economic interaction between more dynamic and more vulnerable regions of the EU.[105] Cooperation across subnational governments could prevent resource fragmentation and ensure that policies work at relevant geographic scales. Such an approach would not only propel national and EU competitiveness but also align this objective with territorial equity. Cohesion Policy, in this way, can be an important tool to overcome the old efficiency versus equity dichotomy. It can balance growth and development across regions, ensuring that all areas, regardless of their size or current level of development, can contribute to and benefit from economic growth across the EU.

In brief, for the EU to maintain and enhance its economic vigour, Cohesion Policy must evolve. It needs to recognise that regional development does not happen in isolation, within the boundaries of regions, but is heavily influenced by the development dynamics of surrounding areas This requires simplifying its classification system, widening its focus to invest in regions depending on the size and depth of their problems, as well as aligning investment and intervention with structural challenges confronting the EU. By doing so, the EU can ensure that all its regions, from dynamic urban centres to less visible intermediate areas, contribute to and benefit from its collective prosperity.

3.2.3 A DYNAMIC POLICY

The EU has traditionally approached the lack of cohesion problem from a static perspective. Cohesion Policy was designed to invest in the least developed regions of the EU. At the same time the policy adopted this static dimension, market dynamics were concentrating economic activity. This created two problems. First, it neglected a large number of European regions that fell between the cracks of national and European policy intervention. Many of these regions were old industrial and/or rural areas that have struggled in economic terms. Second, it overlooked swathes of the EU with considerable economic potential.

Between dynamic urban centres and less developed regions in the EU is a broad range of territories that public investment has largely neglected. Many regions, including intermediate cities, towns and rural areas have attracted limited policy attention. Their problems have been allowed to fester leading to the formation of development traps.[106] Such underperformance is stoking serious economic problems as once a region or city falls behind, reversing its relative or absolute economic decline and recovering its dynamism becomes a tough battle.[107]

Descent into a development trap can be attributed to several interlinked factors such as stagnant manufacturing growth, lack of demographic dynamism and high dependency ratios, innovation and skills shortages, weak institutions, as well as changes in and disconnection from global production networks and value chains.[108]

Furthermore, people in less developed and vulnerable regions as well as many in more prosperous areas are often confronted with a serious lack of opportunities. This means that even beneath a veneer of success, large pockets of poverty, social exclusion and inadequate opportunities persist and are growing.

For the EU to use all its economic potential, it needs to support intermediate and smaller cities, towns and rural areas that are lagging and where places and people face development traps. It should also ensure that economic and social actors in these places increase their connections with more dynamic and/or technologically advanced actors elsewhere in the EU to facilitate knowledge circulation and absorption.[109] By doing this, it will *de facto* continue to support dynamic, large agglomerations. Such cohesion investments can enhance aggregate growth through diverse competitive advantages and the mobilisation of all resources available in the EU. In this respect, Cohesion Policy should not leave anyone behind and should support equality of opportunity while paying particular attention to people who face barriers to full inclusion in economic, social and political life.

Achieving these goals implies treading a fine line of intervention in different types of regions to mobilise the EU's entire development potential and generate greater opportunities and well-being for Europeans, regardless of where they live.

This requires regarding a lack of cohesion not just as a static issue but also a dynamic one. One in which preventing places from spiralling downwards in economic terms becomes a must, not just for the region itself, but for competitiveness and cohesion in the whole of Europe. It will also imply that regional policies must innovatively and proactively address international connectivity, GVCs and FDI.

All this points towards strengthening the proactive component of cohesion intervention. In other words, building a policy that addresses problems at the start, rather than trying to resolve them when it becomes more difficult and costly. A policy that aligns with the competitiveness challenges of the EU and uses its resources far more efficiently by targeting issues when they emerge. A policy that challenges regions across the EU to find new developmental pathways by connecting with evolving globalisation and the geopolitical panorama. The role of proactive policy tools in connecting local economies with global opportunities and challenges requires strengthening, especially in less developed and vulnerable regions.

Cohesion Policy, therefore, has to keep investing in less developed regions, while paying greater attention to regions caught, or at risk of being caught, in development traps. It also requires considering the lack of opportunity, poverty and social exclusion in all types of regions.

As per article 174 of the Treaty, Cohesion Policy already provides support in all regions and for some of the reasons set out above. However, in future, Cohesion Policy will have to pay more attention to the nature of challenges and the responses needed in every region. It will need to continue supporting all regions and territories but in a more targeted and efficient way. This could be done by better addressing three types of challenges:

a) **Low development:** Less developed regions require investment in infrastructure and productive capital, social infrastructure,[110] education, care, innovation, upskilling and institutional improvements. Cohesion Policy should create the conditions to mobilise their potential and absorb economic dynamism generated elsewhere to empower these regions, by investing in their growth and fostering thriving ecosystems.

b) **Lack of economic dynamism:** The policy should focus on regions stuck in development traps to prevent them from entering a persistent downward spiral of stagnation. Targeted investment in trapped regions —or regions at considerable risk of falling into a development trap— could help many parts of the EU overcome a relative decline in GDP per capita, employment and productivity in a far more efficient way than by intervening only when these regions become less developed.

c) **Lack of opportunities:** Large pockets of individuals lacking adequate opportunities to develop their potential can be found in all types of regions in the EU. Lack of opportunities frequently derive from discrimination, especially among the young, children at risk of poverty, elderly, women, people with disabilities and minorities. Addressing the opportunity gap requires investment in education, skills, care, labour market policies, active ageing, lifelong learning, poverty reduction and inclusion as well as fighting brain drain and underemployment.

Table 2. Development challenges and cohesion intervention

Challenges	Type of region	Proposed interventions
Low Development	Lagging Behind	Improve infrastructure and other forms of productive capital, enhance education and upskilling, bolster institutional quality, develop local ecosystems capable of harnessing trade, FDI and GVCs.
Lack of Economic Dynamism	Development Trap	Integrate education with upskilling and lifelong learning, drive innovation, improve institutional quality and address governance bottlenecks, target structural interventions to foster structural change and sustainable growth and jobs, mitigate the economic impact of internal and external borders, and prepare regions to withstand the shocks of changes in value chains, automation and AI.
Lack of Opportunities	Regions at Risk of Poverty and Social Exclusion	Invest in education and upskilling, provide early childhood education and care, implement effective labour market policies (including navigating the challenges from the adoption of digital technologies and automation), promote work-life balance, encourage active ageing, prioritise poverty reduction and social inclusion.

Source: Own elaboration

Investment should be based on the intensity of the challenges. It should also be acknowledged that low development, lack of economic dynamism and lack of opportunities may manifest themselves at different territorial scales, thus involving different types of regions. Additional research will be needed to adequately measure the dimension of these challenges in each region. The right combination of scale and indicators will enable proper identification of regional challenges. This would pave the way for policy intervention to be tailored to the specific problems and developmental stage of each region.[111] The result will be development strategies that more accurately reflect the complexity of a region's situation. This approach ensures that interventions are not only appropriate for the region's current status but also respond to its unique issues, enabling a more effective and targeted response (Table 2).

3.2.4 A POLICY WITHOUT BORDERS

Borders create barriers to development and integration. Cooperation between places inside and outside the Schengen area as well as with countries outside the EU is particularly affected by hard national borders. Borders between EU members inside and outside the Schengen area are strong barriers to the mobility of people, goods and services. Borders between the EU and third countries impose even greater restrictions, especially in the current volatile geopolitical environment. Deficiencies in cross-border integration are costly. According to estimates, the price tag of existing borders within the EU is some EUR 458 billion, or 3% of EU GDP and 9% of GDP in land border regions. This lack of integration also results in the loss of more than 6 million jobs, amounting to 3% of total European employment and 9% for land border regions.[112]

Existing Cohesion Policy seeks to promote cross-border integration and lower border costs. It also drives cross-border cooperation —using programmes such as Interreg and other macro-regional strategies— as a way to foster a sense of European belonging. When dealing with internal borders, the policy has adopted a bottom-up approach, focusing on people-based initiatives and promoting involvement from local authorities and smaller players, generating local engagement, ownership and capacity building.[113]

However, cooperation is not always smooth, and difficulties frequently emerge. This is particularly the case in European regions which have more limited historical traditions of collaboration. Especially in central and eastern Europe, regions face more acute challenges compared to western Europe, which enjoys smoother cross-border cooperation due to stronger economic integration. Much regional potential remains constrained by specific historical development. Cohesion Policy can add value by facilitating collaboration in a structured way, aiding regions to mobilise internal potential and participate in broader European and worldwide networks.

Incentives for cooperation need to reflect the diversity of border areas, including the challenges of EU external borders. With potential future EU enlargement this diversity will increase, demanding an approach that avoids one-size-fits-all solutions. Incentives for territorial cooperation should be diverse, while common visions and objectives for cross-border areas can identify strategic cooperation areas and reinforce regional identities.

Additionally, interregional cooperation deserves more attention, allowing local and regional actors to collaborate with peers across the EU and beyond. This is relevant to the involvement of stakeholders including the public and private sectors and civil society. A reformed Cohesion Policy should focus on increasing the budget and enhancing coordination and concertation, including via macroregional strategies or interregional cooperation to transfer good practice. Overcoming 'border blindness' by better matching and harmonising regional cross-border territorial coordination programmes with national programmes is essential in this respect.

Furthermore, enhancing the territorial distribution of common public services and promoting new types of services such as e-governance and e-health can lead to considerable improvements in quality of life for people living along the EU's internal borders. Strengthening governance in cross-border areas, focusing on their different typologies (maritime, mountainous, insular, river-based, lake-based, outermost, or within macro-regions) is also essential. To achieve this, Cohesion Policy needs to enlarge the scope of Interreg-specific objectives and reinforce the European framework for integrated data collection to support exchanges on cross-border obstacles.

The EU has to acknowledge that regions on its external borders often face a distinct set of challenges and provide responses that address them. In particular, it should concentrate on how to integrate migration, mitigate the effects of war and political instability on its borders and prepare for enlargement along the lines presented below:

- **Integrating migrants:** Regions at the southern and eastern borders of the EU are grappling with huge migration pressures. Targeted support can help them prepare and respond to this migration challenge to improve their resilience and capacity to develop economic activity.

- **Responding to war and political instability:** Many regions, mainly along the eastern border of the EU, are affected by war and political instability. They require special attention. Investments should aim to strengthen their resilience, support reconstruction and provide stability in the face of ongoing conflicts.

- **Preparing for EU enlargement:** Regions on the eastern and south-eastern borders that will undergo adjustments with any EU enlargement need strategic investments. Such investments must ensure they make the most of the opportunities that come with enlargement, facilitating smoother transitions and integration into the EU framework.

These targeted investments at the external borders of the EU will ensure a cohesive approach to regional development that addresses specific needs arising from what are unique geopolitical contexts. Such strategic focus will contribute to the stability and prosperity of the EU and its neighbouring regions.

4 HOW SHOULD COHESION POLICY CHANGE?

Key recommendations

- Cohesion Policy should become more of a place-based and transformative policy, with future-oriented investments sensitive to the unique strengths, challenges and needs of regions.
- A policy exploiting local capabilities and potential and developing future opportunities for inclusive and sustainable growth through diversification and collaboration.
- A policy that builds better institutions, putting institution and capacity building on par with investment in infrastructure and productive capital, human capital and innovation as the basic pillars to achieve development.
- A policy that builds on the partnership principle and shared management to bring together stakeholders from different tiers of government and civil society to deliver more effective and inclusive development strategies.
- A policy that connects regions to harness global investment and value chains to deliver more sustainable and resilient innovation.
- A policy that becomes even more performance-based, blending this approach with its territorial dimension.
- A policy that streamlines its administrative procedures, reducing paperwork and adopts more efficient approaches to simplify processes and make them more user-friendly.
- A policy that remains fundamentally concerned with its original mission of driving sustainable development and boosting competitiveness, while maintaining flexibility to address urgent challenges.

Cohesion is key to building a more dynamic, inclusive and competitive EU and to forging a brighter future together. This requires a Cohesion Policy that adopts a systemic and dynamic approach to development, focusing on growth, equality and opportunities and which also pays special attention to border regions. But how should Cohesion Policy change in order to deliver a more dynamic, competitive and inclusive EU? In this section we look at the seven areas that, in our opinion, require change to achieve this vision.

4.1 BUILD A GENUINELY PLACE-BASED, PEOPLE-BASED AND FUTURE-ORIENTED COHESION POLICY

Cohesion Policy stands distinct from other EU policies and instruments due to its place-based approach. A key strength and idiosyncratic factor of this approach is the involvement of a wide range of stakeholders in policy development and implementation,[114] as epitomised by the partnership principle. Shared management and multilevel governance guarantee the active involvement of regional, local and territorial authorities, social partners, entrepreneurs and civil society. This participatory approach is crucial for the policy's success, [115] as it allows for a better understanding of regional needs and opportunities and helps with the overall recognition of European cohesion projects.

Cohesion Policy has already developed a range of pioneering place-based tools and instruments, including Smart Specialisation Strategies (S3), Community-Led Local Development (CLLD), Integrated Territorial Investments (ITI) and the Just Transition Fund (JTF). Additionally, the objective of developing a 'Europe closer to citizens' enhances place-based development in national and regional programmes. Many of these instruments, especially S3, have been adopted in recent years beyond the EU's borders.

However, there remains considerable room for improvement to build a genuinely place-based, people-based and future-oriented Cohesion Policy. The policy should put stronger emphasis on promoting regional and local transformation (which encompasses diversification and collaboration) and encouraging the exploitation of potential and opportunities. Looking forward, the post-2027 reform of Cohesion Policy should build on these place-based tools, while using more sophisticated regional and territorial diagnosis to better target investments and to closely align interventions and investments with local conditions and European challenges. This could be achieved by following the principles below:

1. **Drive regional and local transformation:** The focus of Cohesion Policy strategies should be on exploiting local capabilities, taking into consideration a region's unique strengths and potential. It should avoid mimicking or copy-pasting what has been done in other regions[116] while supporting diversification and the development of opportunities for inclusive and sustainable growth through collaboration and networking.

2. **Promote innovation and diversification:** Cohesion Policy needs to identify and exploit opportunities from all forms of innovation, including process and social innovation. It should also tailor development strategies to put regions on a path to change while building on existing specialisation and comparative advantage.[117]

3. **Support regions to reinvent themselves:** In some regions Cohesion Policy is the main vehicle for change. It allows them to test something new and focus on new sectors to push breakthroughs[118] when existing sectors become exhausted. Such change requires new capabilities based on the attraction of external resources such as inward investment, return migrants and greater involvement in GVCs to facilitate new sources of competitive advantage.[119]

4. **Enhance inter-regional links and collaboration:** Encourage connections between regions to facilitate knowledge transfer and innovation as well as cross-border investment and FDI across Member States in a context of strategic autonomy, especially for more remote and vulnerable regions with limited internal opportunities.[120]

5. **Integrate Cohesion Policy with broader development goals:** Align Cohesion Policy investments in each region with broader EU competitiveness goals and the Sustainable Development Goals. This implies adopting a more proactive stand by the European Commission. As indicated by Fabrizio Barca (2017), the previous chair of the equivalent group that reviewed Cohesion Policy a decade and a half ago, 'the Commission should extend its pro-active role on the ground. It should do so in designing strategies, implementing conditionalities and partnership, accompanying and evaluating interventions.'[121]

Such a reform will involve moving beyond traditional strategies, putting regions on a path to reinvent themselves both by diversifying into related sectors and more complex activities[122] and, in some cases, by experimenting with new economic activities.[123] This will also mean mobilising underutilised human resources through targeted, location, on the job and lifelong learning schemes as well as non-formal education.

To effectively implement these reforms, a granular understanding of regional and sub-regional development dynamics is required. Improved data and analytical tools are needed for more efficient policymaking and to ensure that Cohesion Policy provides targeted solutions. This requires the implementation of robust systems for monitoring, evaluation and learning from Cohesion Policy programmes and projects at a fine scale. This will allow for real-time adjustments and improvements, ensuring that objectives are met more efficiently and in a timely manner. The model of 'What Works Centres' —which continuously and systematically collect evidence on successful programme and projects[124]— should be discussed both at the EU and Member State levels.

4.2 DEVELOP STRONG INSTITUTIONS AND GOVERNANCE

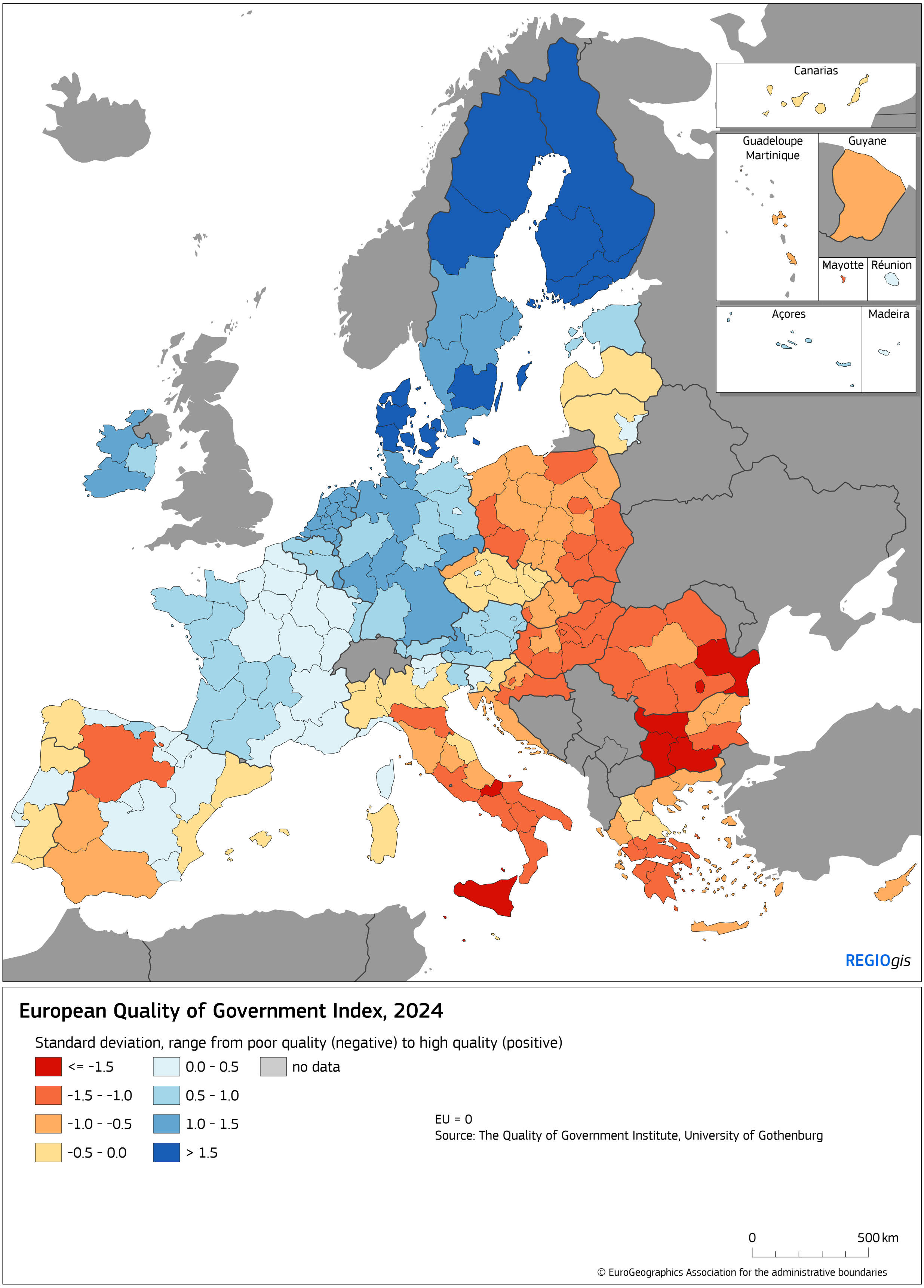
4.2.1 INSTITUTIONS

In many European regions, low institutional capacity presents a significant barrier to development.[125] The quality of local institutions and governance, particularly in addressing corruption and enhancing trust in government, as well as government capacity, shape the potential for regional growth and progress. In weak institutional ecosystems, throwing money at other drivers of economic growth such as infrastructure, skills and innovation often delivers limited returns.[126] This can result in misallocated resources and projects that make little sense from economic, social or even political perspectives. A mounting body of evidence has shown how weak institutions lead to ineffective investments,[127] underscoring the need for a comprehensive approach to institutional capacity building as a cornerstone for sustainable regional development in the EU.[128] The institutional problem is exacerbated by stark differences in institutional capacity and trust both within and across EU regions. These disparities are evident in regional assessments of government quality, with the lowest government quality found in the south-eastern corner of the EU (Figure 9).

Increasing transparency and accountability can remove institutional bottlenecks. Yet many vulnerable regions across the EU are struggling to tackle institutional barriers. As a consequence, they experience slow growth and struggle with governance problems and corruption, seriously denting returns on Cohesion investment.[129] These regions experience limited growth and heightened vulnerability to economic crises and become trapped in a cycle of low growth and poor governance. Therefore, Cohesion Policy should promote inclusive and sustainable regional development with reduced disparities by enhancing governance, government quality and public policy delivery in these regions.

Since the 2014 reform of Cohesion Policy the EU has been a pioneer in bringing institutions into the heart of its development policy. However, this remains limited and experimental. It is still too early to fully assess whether S3 and the array of administrative capacity-building measures have resulted in significant improvements in institutional quality in the most vulnerable regions of the EU. What is becoming increasingly clear is that a revamped Cohesion Policy needs to be far bolder in this respect. This implies making institutional and capacity building integral to Cohesion Policy, putting it on a similar level as investment in infrastructure, human capital and innovation as a basic development pillar within the policy.

Figure 9. Regional quality of government in the EU (2024)



Source: elaborated with data from the Quality of Government Institute, University of Gothenburg. Methodology as per Charron et al. (2022).

Improving institutions is important for less developed regions and those at risk of falling into a development trap. Improved institutions lead to far greater returns on investment than throwing more money into traditional development axes.[130] Overcoming issues like corruption and a lack of accountability and transparency will go a long way to resolving problems that have long marred development prospects. It would also help the EU as a whole to improve the value-for-money of development investment and achieve more sustainable development.

The benefits of putting institutions at the centre of Cohesion Policy are twofold. First and more directly, good institutions are key to enhancing the development prospects of any region. Second, improved institutions have considerable advantages for the design and implementation of efficient development and for all public policies. They are also vital to formulating integrated, comprehensive development strategies in policy interventions. Improved institutions can contribute to developing well-balanced strategies, incorporating initiatives targeting regional infrastructure gaps, advancing human resource capabilities and job structures, as well as promoting innovation. The specific mix of these initiatives should be tailored to each region's initial conditions and stage of development.[131]

Building institutional capacity implies setting the conditions to create an enabling environment for sustainable development in every EU region. There is no single recipe to develop this institutional ecosystem.[132] However, in one way or another, it would involve some, or ideally all, of the following policy measures:

1. **Reinforce capacity-building across the whole administrative ecosystem**. Cohesion Policy should invest in strengthening leadership and staff professionalism across the whole administrative ecosystem, from Managing Authorities to beneficiaries. A higher proportion of technical assistance should be used for non-salary investment in specialist skills for analysis, strategy development, project development and financial management. Managing Authorities and Intermediate Bodies of every programme should participate in external knowledge exchange.

2. **Strengthen local government capacity**: Enhance the skills, resources and policy capacity of government officials to effectively engage in the development process, including training in data analysis, stakeholder involvement and coordination with other government levels.

3. **Support stakeholder involvement and participation**: Encourage the active participation of local stakeholders, including public, private and civil society organisations, to contribute resources, knowledge and experience essential for successful local development.

4. **Empower local authorities and officials**: Subnational authorities and communities should be allowed to play a real role in the design and implementation of local development strategies.

5. **Provide professional and technical assistance:** The EU, alongside national governments, should enhance the assistance available to local decision-makers and officials to improve the technical design and implementation of development intervention.[133] Support should go beyond financial transfers and include far greater involvement in the whole development process, especially in vulnerable EU regions where such technical support —including involvement of local and national expertise from other Member States— is essential to filling local knowledge or skills gaps.

6. **Improve data collection, analysis and evaluation:** Encourage more detailed and disaggregated data collection at national and regional levels to support decision-making, monitoring and policy learning.

However, institution and capacity building should extend beyond individual training to help develop partnerships and facilitate European-wide learning. It should also encompass capacity building for organisations and, indeed, entire territories. Encouraging participation, along with promoting transparency and accountability can significantly advance development and support the European project.[134] Mobility initiatives such as promoting and incentivising the existing 'Erasmus' programme for civil servants can go a long way to helping diffuse best institutional practices and bring organisations in more vulnerable regions up to speed in terms of good governance.

4.2.2 GOVERNANCE

Good governance is paramount to the success of European Cohesion Policy. The policy's effectiveness has been, at times, constrained by governance issues, leading to calls for leaner, more concentrated governance at both European and national levels. Such a perspective aims to circumvent the complications, costs and delays associated with stakeholder involvement in Cohesion Policy.

Cohesion Policy, underpinned by the partnership principle, is inherently resource-intensive, involving a multitude of actors and stakeholders with varying interests and viewpoints. However, this is not a drawback but rather one of the policy's greatest assets. It fosters inclusivity, diverse levels of ownership and democratic engagement. Nonetheless, there is substantial scope for enhancing governance in this context.

Challenges include inadequate coordination on the ground, within and across regions as well as among different European policies. This often results from a lack of dialogue among stakeholders involved in the process, leading to inefficiencies. Additionally, not all stakeholders are consistently engaged, meaning that issues with stakeholder participation dent their voice and input.

To address horizontal challenges, involving actors on the ground and vertical ones, involving different tiers of government, there is a need to go towards a functioning multilevel governance system. Horizontally, partnerships should be strengthened, requiring and enabling the meaningful involvement of a broad range of stakeholders in Cohesion Policy programming and implementation.[135] This is not just about building and simplifying administrative capacity. It is also about strengthening democracy and addressing political discontent with European integration through enhanced institutions with better local and regional participation. Effective measures should include:

1. **Participatory approaches**: Enhance stakeholder awareness and engagement, including that of civil society, the private sector and local communities in decision making through public consultation and inclusive policy dialogue.

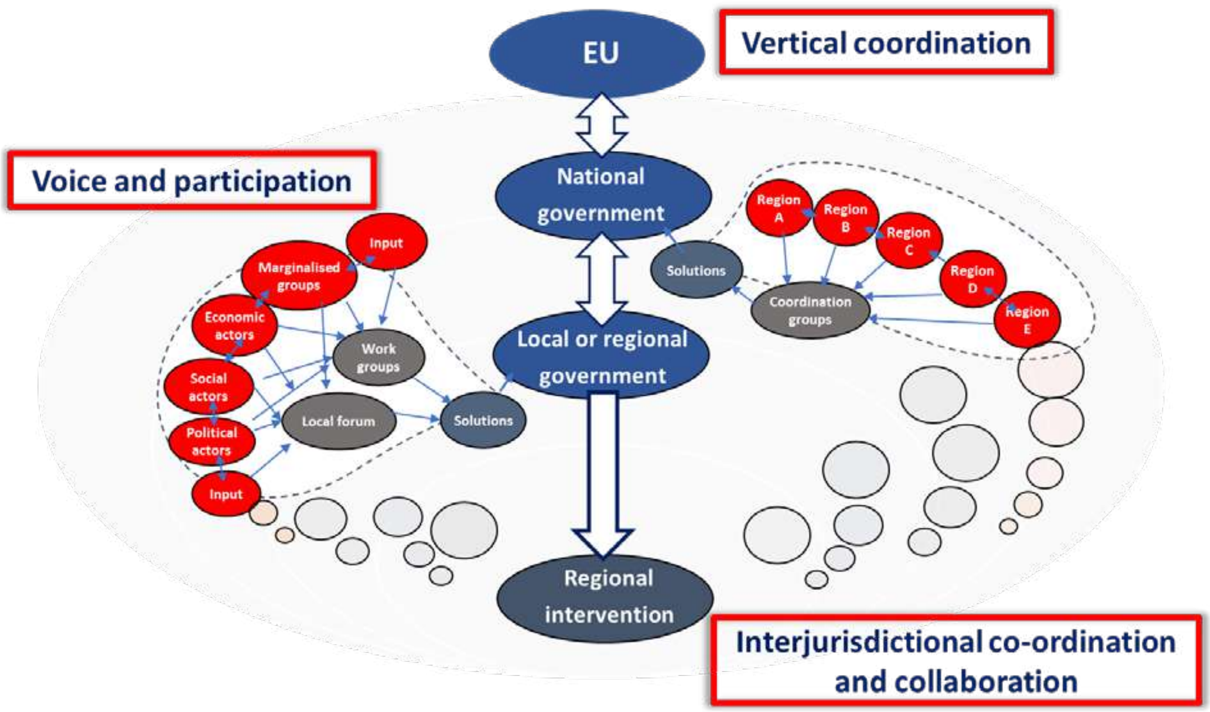
2. **Stakeholder engagement**: Formal platforms, such as local fora or work groups for diverse stakeholder dialogue should be set up and enforced to ensure varied perspectives in policy-making.

3. **Voices of marginalised groups:** Ensure that all groups, especially those in vulnerable situations including women, young people and ethnic minorities, have a say in development affairs.

4. **Code of conduct on partnership:** The code of conduct on partnership should become obligatory. Furthermore, the selection of partners to involve should be transparent and balanced across different groups.

Such economic and social stakeholder participation and engagement fosters ownership, empowerment and a comprehensive approach to policy design, management, implementation and monitoring. Moreover, horizontal coordination should also involve different regions to promote awareness of activities in neighbouring regions, coordinate efforts and avoid wasteful territorial competition.

Figure 10. The multilevel governance ecosystem of Cohesion Policy



Source: Own elaboration

Vertically, the EU, national and regional actors have to establish clear formal and informal channels for co-operation. This could improve the synchronisation of national, regional and local interventions. Enhanced co-ordination can prevent policy duplication and identify synergies, increasing the policy's effectiveness and efficiency. Measures to achieve this include:

1. **Clear distribution of responsibilities**: Authority and responsibility at different government levels should be better defined to avoid overlap and confusion.

2. **Effective communication channels**: Establish efficient communication channels between governance levels and stakeholders, including regular meetings and collaborative networks to enhance efficiency and returns on investment.

3. **Integrated policy frameworks**: Develop overarching policy frameworks that allow for local adaptation while aligning with broader objectives, leveraging an integrated policy approach that brings together multiple pillars of regional innovation and development to maximise synergy.

4. **Joint decision-making mechanisms**: Put together organisations for collaborative decision-making such as committees, joint task forces, working groups, or councils with multilevel representation. Establish follow-up and reporting mechanisms to improve dialogue and engagement in the policy.

5. **Conflict resolution mechanisms**: Create protocols and/or organisations to resolve conflicts between different government levels or stakeholders.

Improving governance mechanisms in European Cohesion Policy involves enhancing the multilevel governance and policy ecosystem. This includes improvements in horizontal and vertical co-ordination, ensuring participatory and inclusive processes and establishing clear communication and decision-making structures (Figure 10). These steps are fundamental for the policy's effective delivery and for fostering a more democratic, integrated, evidence-based and efficient approach to regional development in Europe.

4.3 HARNESS GLOBAL OPPORTUNITIES

A rapidly changing global and European competitive environment calls into question current development patterns endangering existing jobs and businesses. Less developed and vulnerable regions of the EU face a dilemma when seeking to transform their economies. They have to decide whether to engage in competition based on low skills and cheap labour or embrace innovation and upgrading with higher-value added activities providing a cornerstone for progress.[136]

Innovation in high-tech final products or services is difficult to achieve in these regions because most lack sufficient economic agglomeration, skills and technology to raise their game. But going down the low value-added, low-skilled, cheap-labour route condemns them to an uncertain future. Innovative pathways for value creation and upgrading, therefore, become not just an option but a necessity. However, pursuing such a pathway in isolation is challenging, particularly in regions without a sufficiently dense local network of economic actors on which to build their global competitiveness, especially those with imperfect direct access to large markets for products and services.

These barriers can, however, be overcome by transcending the tyranny of geography and side-lining the competitive pressures of global trade. An increasing body of research is showing that even places where innovation was traditionally considered to be unlikely can move towards higher value-added activities that involve more advanced skills with higher wages and competitiveness.[137]

Regions can upgrade from low to high value activities within industries that are already present in their local economy. They can focus on intermediate goods (that account for more than 50% of global trade) and find their own initial niche in GVCs. In so doing they can focus on specific components rather than waiting to develop the capabilities to produce a final product, such as an electric vehicle, in its entirety. Different upgrading strategies are possible. Regions can develop a new product or service in an existing or newly related industry that is part of a GVC. Alternatively, they can move into pursuing new functions in the value chain of an existing product, upgrading, for example, from basic production to design or marketing. This means moving into functions that lead to higher local value generation.[138]

In pursuing these strategies, firms and organisations need connections with sources of knowledge and skills beyond their immediate vicinity, tapping into a wider pool of ideas and expertise, often beyond their national borders. This external engagement, complemented by a concerted effort to enhance local capacities to absorb this knowledge, can trigger a transformative shift from low-tech sector, low-skilled labour economies to more dynamic, innovation-driven ones.[139]

This requires a combination of both internal development and external collaboration. Internally, measures need to be taken to foster an ecosystem that can effectively absorb and implement new knowledge.[140] This involves not only upgrading the skills of the local workforce but also successful partnerships between academic or skill-training institutions and firms engaged in GVCs. Those are essential to creating a continuous flow of knowledge that meets the evolving needs of these firms. Externally, the focus should be on coupling local ecosystems with connectivity to GVCs and global flows of capital, skills and knowledge. This approach transcends a traditional reliance on physical proximity to innovation hubs and entails a proactive engagement with external actors including foreign direct investment, multinational enterprises and lead firms in GVCs.

Cohesion Policy can play a crucial role in supporting all types of regions in this proactive engagement with global opportunities. Intervention in this area is justified not only by the significant market failures that prevent less developed regions from being considered by key players in FDI networks and GVCs but also by the need to build the supportive ecosystems outlined above. In addition, engagement with green GVCs can also facilitate the transition towards more sustainable local activities.

This could be achieved through measures that include:

1. Supporting the **establishment of dedicated regional agencies** (or similar functions within the regional government) to act **as matchmakers between regional assets and global FDI and knowledge networks and GVCs.**[141] In less developed regions these agencies can help overcome many of the failures that inhibit FDI and trade. In all regions these organisations should also act as local content units to increase the connectivity between global hubs and local assets such as suppliers, skills and knowledge.

2. Backing regions to **obtain global recognition of their unique products,** for example through **geographical indications and trademarks**.[142] This has been shown to reduce depopulation in rural areas and attract external capital by mobilising local identities and 'marketing' them to the global economy.[143]

3. Supporting **systematic regional mapping of global networks and value chains** as a fundamental step to identifying the requirements for upgrading and innovation in a global environment. Various regions are at different stages of their value chain upgrading journey. While learning from others' experiences can be beneficial, directly imitating them might be harmful. Therefore, it is essential to comprehend a region's current position and desired direction in GVCs and global networks before applying any public policy effectively.

4.4 IMPROVE POLICY DELIVERY FOCUSING ON RESULTS AND PERFORMANCE

Cohesion Policy must evolve to align with the changing socio-economic governance landscape of the EU, particularly in light of the establishment of the RRF and its implications for European policy architecture. It should become even more performance-based, blending this approach pioneered by the World Bank with its inherent territorial dimension in a way that maintains subnational involvement and ownership.

Performance-based models, where payments are based on fulfilling pre-agreed milestones and targets, provide faster delivery and, in some cases, enhance efficiency.[144] However, when considering more emphasis on performance-based measures, Cohesion Policy should avoid the pitfalls of excessively centralising authority in national governments or the tendency to prioritise legal and rapid absorption over actual goals, the additionality and value-for-money of funding, assurance and accountability.[145] Furthermore, the performance-based approach of Cohesion Policy needs to reflect the territorial dimension, sub-national level involvement, and the long-term structural nature of Cohesion Policy. This requires a performance-based approach which differs from that applied under RRF and is true to the nature of Cohesion Policy.[146]

Combining performance-based methodologies with the territorial dimension entails developing multilevel governance and stakeholder participation. Involving sub-national stakeholders becomes instrumental in delineating location-specific needs and actions. This inclusive approach can foster ownership and enhance capacity-building, although it does not necessarily imply that funding decisions should always be decentralised.

Such an approach will also have to tread a fine line between combining the needs of challenge-oriented policies, smoothing the tension between top-down priority setting and place-based regional development processes and the need to balance directionality in engaging with EU objectives with the freedom inherent in place-based policies.[147]

By veering towards a territorially sensitive performance-based model, Cohesion Policy could complement investments with reforms to achieve development goals[148] without diverting from its foundational objectives of promoting social and economic convergence.[149]

Moreover, the policy should learn to live with EU's conditionality culture. Since the 2010s, conditionality has become common in EU policies, significantly influencing Cohesion Policy.[150] Emerging from various crises, this shift has led to an intertwining of different conditionalities, impacting both governance methods and Cohesion Policy.[151] The introduction and later proliferation of ex-ante conditionalities to address institutional and administrative problems is one of the most substantial changes since the inception of the policy. It has also significantly affected its functioning and impact.[152] The conditionality agenda in Cohesion Policy has evolved to link the implementation of funds more closely with the EU's political priorities, particularly during the sovereign debt crisis. Despite scepticism towards the idea of conditionalities, some are potentially beneficial:

- **Endogenous and/or efficiency conditionalities** can contribute to the objectives of Cohesion Policy and facilitate its implementation.

- **Exogenous and/or compliance conditionalities** are designed to ensure a sound use of EU funds in line with the values and objectives of the TEU and the Charter of Fundamental Rights. These conditionalities are essential to uphold the rule of law and democratic standards. Such exogenous and/or compliance conditionalities may risk to inadvertently hold Cohesion Policy initiatives captive, penalising regions for decisions made by national authorities that are outside their control.

Cohesion Policy needs to overcome the paradox of preconditions meant to ensure policy effectiveness but instead triggering inefficiencies in policy implementation. The challenge is to determine the extent to which Cohesion Policy can contribute to fulfil overarching European objectives regarding the rule of law or the implementation of and compliance with the Charter of Fundamental Rights. In some cases, this involves transforming conditionalities from mere prerequisites into integral components of the policy to promote the development of stronger and more efficient institutions and thus ensure the success of investments. However, conditionalities alone are not enough. A systemic programme for national and regional reforms is needed.

Hence, Cohesion Policy should continue to build on its flexibility and adaptability, supporting structural transformations to respond to current challenges.[153] In addition, it should deliver on its objectives without leading to a concentration of resources in more developed regions and specify its contribution to the reform priorities identified in the European Semester.

It should also draw inspiration from international best practices in managing innovative investment and complex reform projects, implementing 'diagnostic monitoring' for continuous supervision and periodic review.[154]

Ultimately, adopting a performance-based approach will also enable Cohesion Policy to further show its real value and impact with clear delivery against objectives and goals linked to national and regional strategies such as National Energy and Climate Plans, or infrastructure development strategies.

4.5 MEANINGFUL SIMPLIFICATION

Cohesion Policy has grown in complexity over the past three decades. Successive reforms have introduced new objectives, funds, instruments and tasks. New conditionalities have been created to improve the absorption, regularity and performance of the policy. This has often been in response to evaluation evidence, or pressures from the Council, Parliament or European Court of Auditors (ECA). In particular, an 'audit explosion' since the 2000s has contributed to a greater emphasis on compliance than actual impact.[155] With constraints on institutional capacity, management bodies inevitably make trade-offs between quicker spending, effective spending and the avoidance of errors.

The European Commission has made considerable efforts to achieve 'simplification', including the High-Level Group on Simplification for Post-2020 Cohesion Policy, several of whose conclusions were taken up in the regulatory framework for the 2021-27 period. The key recommendations of the Group were: alignment of horizontal rules between EU funds; fewer, clearer and shorter rules; genuine subsidiarity and proportionality; a stable yet flexible framework; extension of the single audit principle. However, these have only been partly realised. Rules still differ between EU funds. Some Member States have resisted greater proportionality and differentiation in rule design. Proposals for short rules come up against programming authorities' desire for more certainty as to how those rules might be interpreted by auditors. Application of the single audit principle has faced problems with the capacity of Member State audit bodies to provide sufficiently reliable assurance on EU spending.

The continuing complexity of Cohesion Policy poses major challenges for Managing Authorities, Intermediate Bodies and, most of all, beneficiaries. For many years, local and regional officials have voiced concerns about the growing complexity and number of requirements needed to develop projects and access funds, impeding development in their regions. Innovative, higher value projects which carry more risk can be discouraged in favour of more conventional interventions that tick all the necessary boxes.

Local officials have become increasingly apprehensive about their organisational and personal responsibility, as genuine errors or administrative mistakes could have serious judicial repercussions. This apprehension has not only lowered absorption levels compared to the past but also undermined trust in the policy and the EU as a whole.

For beneficiaries, administrative processes make it difficult and time-consuming for them to access funds. In some Member States, Cohesion Policy funding is avoided in favour of less complex and less risky domestic funding.

This complexity has damaged the reputation of the policy. On the ground, it has made it difficult for Managing Authorities to take a strategic perspective and deliver an effective, place-based approach to designing, implementing, monitoring and evaluating Cohesion Policy programmes focused on impact.

There is of course scope to further streamline administrative procedures, reduce paperwork, and adopt more efficient, digital approaches to simplify processes and make them more user-friendly. More use could be made of simplified cost options. More technical support, clearer guidelines and greater hands-on assistance for applicants would make the policy more accessible.

However, past experience indicates that, while incremental improvements should continue to be made, the Commission should look at more radical options focusing on systemic rather than procedural changes. This reassessment needs to address, *inter alia*, the coherence of Cohesion Policy (especially uniformity of procedures with other EU funds), consolidating funding streams, the scope for relying more on national rules, and providing greater flexibility for Member States to determine eligibility.

Lastly, current mechanisms for monitoring and evaluating the impacts of funded projects are complex, yet insufficient. Enhancing and streamlining these mechanisms to better track performance, outcomes and impacts is vital to ensure a more effective use of resources.

4.6 MAKE COHESION POLICY 'FUTURE AND CRISIS PROOF'

Cohesion Policy has played an essential role in EU crisis responses. By swiftly introducing a wide range of flexibilities and setting up specific crisis instruments (e.g., CRII/CRII+, CARE/CARE+, FAST-CARE), it allowed Members States and regions to react quickly and effectively to the effects of the pandemic and the war in neighbouring Ukraine.

Cohesion Policy will continue to be there for future crises and will, once again, play a valuable role, especially as it has the delivery system capable of reaching subnational intermediaries and projects on the ground.

However, Cohesion Policy's mission to drive long-term transformation that boosts competitiveness and reduces disparities across the EU has been affected by the growing need to respond to emergencies and manage crises. The use of Cohesion Policy as an emergency instrument has affected its capacity to deliver on its goals. Projects have been delayed or cancelled, Cohesion Policy staff have been switched to emergency tasks and targets have become unrealistic. The perception of Cohesion Policy has also been affected. It is increasingly perceived as an additional emergency funding source, used to address immediate problems and emergencies or to arm wrestle countries into meeting certain conditions, often unrelated to the policy's goals.

Moreover, Cohesion Policy's capacity to rapidly respond to crises is modest. Accounting for less than 1% of EU public expenditure and with a primary focus on long-term investment, the policy has limited mechanisms to reallocate funds or implement temporary measures in exceptional circumstances. This does not mean that Cohesion Policy has been inflexible in the face of emergencies. One example of how the policy has jumped to the occasion in an emergency, without jeopardising its budget, is the SURE programme (Inset 2).

Inset 2

Support to mitigate Unemployment Risks in an Emergency (SURE) programme

In September 2020, the EU introduced the Support to mitigate Unemployment Risks in an Emergency (SURE) programme, allocating EUR 98.4 billion of its planned EUR 100 million to Member States. Funded through social bonds, SURE supported national short-time work schemes and self-employment income replacement programmes, enabling employees with reduced pandemic-related working hours to receive full-time pay.

SURE had a remarkable impact, aiding approximately 31.5 million people and 2.5 million companies in 2020, with diminishing numbers in the following years. It primarily benefited SMEs in various sectors, preventing an estimated 1.5 million job losses in 2020 alone. Audited by the European Court of Auditors in 2022, SURE received positive feedback.

The funding for SURE, derived from the issuance of social bonds under the Social Bond Framework which saw strong market interest due to favourable pricing. These funds were loaned to Member States on advantageous terms, leveraging the EU's strong credit rating. The loans were conditional on financing employment schemes and facilitated by Member State requests and Commission assessments.

By December 2022, SURE had disbursed EUR 98.4 billion in loans to 19 Member States. Italy, Spain and Poland were the main beneficiaries. This initiative saved Member States an estimated EUR 9 billion in interest payments. The loans were backed by EUR 25 billion in guarantees from Member States, based on their share of the EU's Gross National Income according to the 2020 budget.

Cohesion Policy should continue to focus on its original goal of promoting development and cohesion while remaining flexible, responsive and adaptable to address urgent challenges. The emphasis should be, as indicated throughout this report, on being a pre-emptive, forward-looking policy driving transformative changes that smooth transitions and enhance social investment.

This requires a clear vision for the future that aligns with the Treaty's objectives of convergence and long-term development as well as a capacity to draw lessons from recent crises. It also requires a balancing of short-term reactions with its strategic, long-term objectives while guaranteeing that administrative resources are not overstretched.

Looking ahead, clear rules for combining long-term goals of the policy with in-built flexibility are needed. Regional and national entities should continue using Cohesion Policy effectively under pre-set conditions, contributing to meeting evolving EU objectives. Yet, to ensure the policy remains adaptive and capable of driving transformative resilience while allowing for the necessary flexibility to re-programme, funding for extra staff, transitional support, derogation on State aid and flexibility for co-financing is needed.

Lastly, and on the general issue of dealing with emergencies at EU level, the EU needs a mechanism for additionally funding the national level to sustain/boost investment and maintain employment. This mechanism could build on the EU Solidarity Fund, for internal emergencies, including natural disasters, flooding, forest fires and volcanic eruptions.

4.7 A VIABLE BUDGET TO ENSURE COHESION POLICY CAN DELIVER COHESION

The budget for Cohesion Policy in the EU post-2027 should increase, reflecting the substantial needs and challenges within the EU. Reducing investment in cohesion would be a mistake and a significant step backwards. At the very least, the future budget should match that of the 2021-2027 period in real terms, as any reduction will undermine the EU's dedication to its political priorities and treaty obligations.

Moreover, the prospect of enlargement will significantly impact the Multiannual Financial Framework (MFF) and funds allocated to Cohesion Policy. With potential enlargements towards the western Balkans and eastern Europe, the EU will have to deal with increased economic, social and territorial disparities. These changes underscore the necessity for a robust, EU-wide Cohesion Policy particularly in the face of new challenges and costs including integrating new Member States. Enlargement will also demand more focus on capacity building.

To keep all of Europe on board in this crucial period, regions in the EU currently facing disadvantages have to be assured they will not lose investment and become even more vulnerable due to enlargement. Cohesion Policy must continue to be a comprehensive strategy that benefits all regions, territories and people.

5 WITH WHOM SHOULD COHESION POLICY COLLABORATE?

Key recommendations

- Cohesion Policy should become a policy that forges synergies with other EU and national initiatives to ensure that all policies deliver on their goals.
- A policy with a strategic framework uniting competitiveness and cohesion and other relevant policies as part of the European Semester process.

Cohesion is far too important to be left to Cohesion Policy alone. Cohesion Policy exists amidst a broad spectrum of other EU policies. These include established policies such as the Common Agricultural Policy (including Rural Development policies), the European Pillar of Social Rights, its action plan and the European Innovation Policy, alongside newer initiatives like the RRF, the green, digital and demographic transitions —often considered more exciting because of their novelty— as well as emerging policies such as the European Industrial Strategy and the Common Security and Defence Policy. Cohesion Policy is also linked to the Commission's 'whole of government' approach to implementing the Sustainable Development Goals including through the European Semester.

While these policies have diverse aims, inputs and compliance mechanisms, at their core they share common goals with Cohesion Policy. They all aspire to bolster the economic dynamism of the EU as a whole, to increase development, enhance the continent's resilience and improve the quality of life of Europeans.

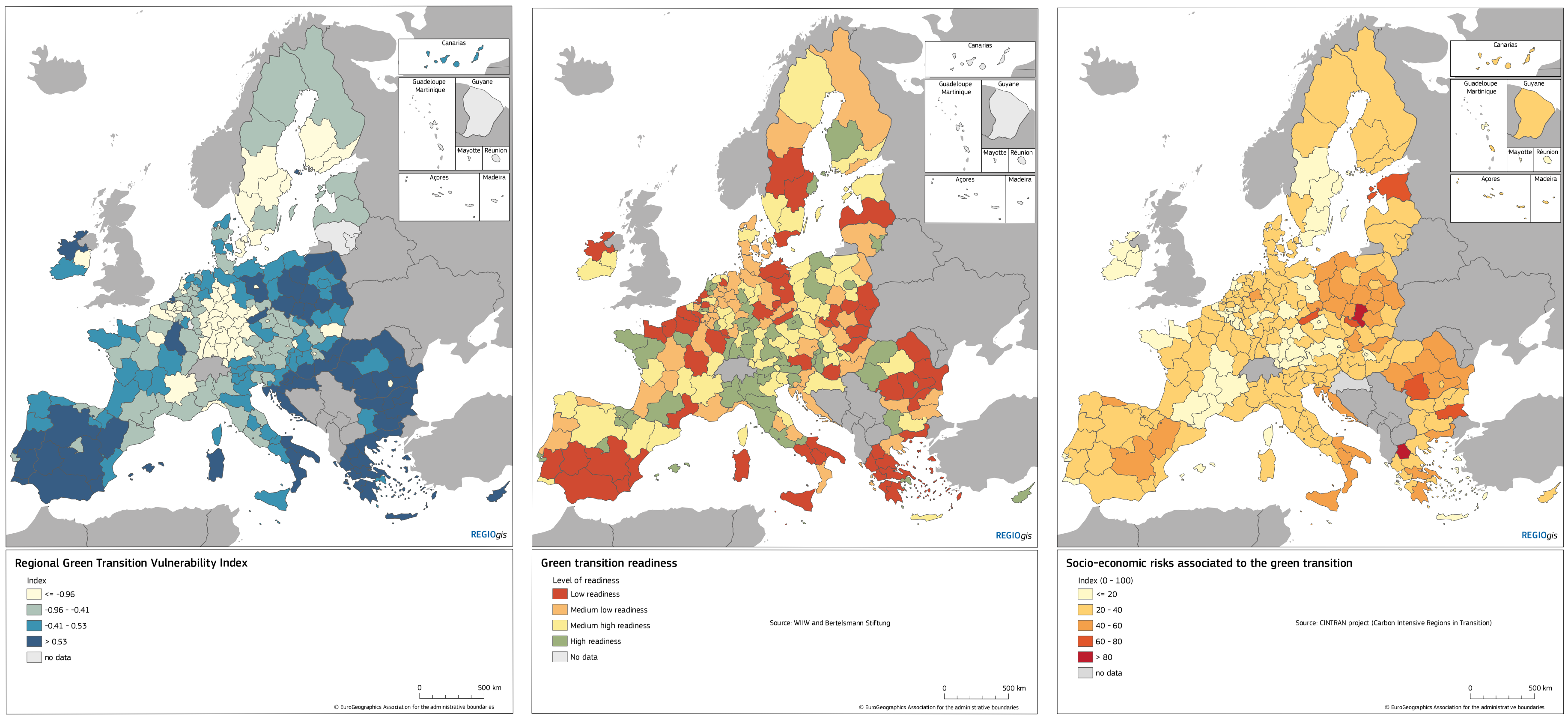
Nevertheless, the impacts of this diverse array of EU policies do not always align with their aspirations. Frequently, they fall short of achieving their ultimate objectives due to three primary reasons.

Firstly, other EU policies miss a territorial dimension. This is particularly evident across much of the RRF and the green, digital and demographic transitions, as well as in the European Semester and STEP, the sovereign fund expected for the next MFF. Other EU policies are conceived as aspatial or spatially blind. This might stem from a disparity in scale or the different challenges they face. However, all EU policies regardless of their level of implementation, have important territorial implications and these are unevenly distributed across Europe. The green transition, for example, presents significant opportunities for dynamic urban centres and technologically advanced regions in the EU. However, it simultaneously risks exacerbating challenges for less developed and more vulnerable regions, as pointed out by a growing number of recent studies using different approaches and methods (Figure 10).[156] Disparities between regions can also widen, putting a strain on EU economic and social cohesion.

As important, a disregard for impacts on vulnerable regions could derail the green transition. The differential territorial impact of green intervention is already fuelling a 'green discontent'. This is a form of dissatisfaction emerging in territories disproportionately bearing the short- and medium-term costs of the green transition without enjoying most of its benefits and whose inhabitants have often not been involved in any decarbonisation governance process. Further neglect of the territorial dimension of the green transition can erode, as we are already seeing, public support for climate action in some parts of Europe, jeopardising the broader goal of decarbonising economies.[157]

.

Figure 11. Indicators of regional readiness and vulnerability to the Green Transition



Sources:
Regional Green Transition Vulnerability Index, Rodríguez-Pose and Bartalucci, 2023.
Green Transition Readiness, Maucorps et al., 2022.
Socio-economic risk associated to the Green Transition, CINTRAN Project: https://storymaps.arcgis.com/collections/263f2045c6c54b9ab120755369d64756?item=2

Other EU policies and processes, such as those covering the digital transition,[158] science and technology, defence, the RRF or the European Semester are susceptible to similar risks. This reinforces the need for enhanced synergies between other EU policies and Cohesion Policy to ensure that all policies become far more capable of achieving their goals and, as a consequence, of delivering on a better and more sustainable future for all EU citizens. To be successful, all these policies need to consider the territorial dimension of their investments and how they filter down to the local level.[159]

Secondly, governance and institutional issues arise from a lack of coordination between policies. The proliferation of EU instruments, some with partially overlapping objectives, such as Cohesion Policy and the RRF, or eligibility criteria such as the Just Transition Fund, European Regional Development Fund and European Social Fund+, can obscure the visibility of EU actions. Overlaps trigger administrative complexities for authorities and foster unhealthy competition in project pipelines. This scenario epitomises the problem of the left hand not knowing what the right hand is doing. The tendency to work in silos is leading to inefficiencies and suboptimal outcomes.[160]

Thirdly, other EU policies such as the RRF have the fundamental task of dealing with emergencies. Yet, in a highly turbulent world, emergencies have become the norm rather than the exception. Cohesion Policy, by contrast, deals with long-term, structural challenges and is designed to prepare vulnerable regions in Europe to withstand future threats. In this respect, the EU needs a strong Cohesion Policy as a pre-emptive tool to ensure overall preparedness of the Union to face future challenges and to build resilience within the system. A strong Cohesion Policy will consequently ease the task of EU-wide policies dealing with emergencies.

In addition, the development of stronger synergies is not limited to EU policies and economic governance. It also extends to Member State policies, encompassing both financial support and a variety of incentives or sanctions.

Creating synergies between Cohesion Policy and other policies is much more than merely adhering to the principle of 'doing no harm to cohesion'. It is about recognising the interdependence of these policies and making sure the overall efficiency of any policy intervention is enhanced.[161] Cohesion Policy already contributes to a range of broader EU objectives as it addresses long-term challenges and evolving EU priorities such as the green, digital and demographic transitions, innovation and skills gaps at territorial level. The policy concentrates its funding on these key priorities, notably through thematic concentration on climate and environmental objectives as well as competitiveness and innovation. The Just Transition Fund also contributes to alleviating the impacts of climate transition.

Yet more needs to be done. Cohesion Policy and other EU initiatives, as well as many national policies, are mutually reliant and need to work in concert to achieve their collective goals. By fostering greater synergies, the efficiency and effectiveness of these policies can be significantly enhanced. Such synergies are key to ensuring that all European policies, along with many national policies, realise their full objectives, increasing Europe's competitiveness and maintaining the EU's commitment to cohesive growth and development.

Setting up a strategic framework uniting competitiveness and cohesion with other policies —including rural development, innovation or defence policies— as part of the European Semester process, will help strengthen synergies and ensure common objectives that require commitments from EU, national and subnational policies.

6 CODA: ENLARGEMENT AND THE FUTURE OF COHESION POLICY

Key recommendations

- Cohesion Policy is a vital policy to guarantee an effective integration of future Member States without compromising investment in current EU regions.
- A policy that ensures that enlargement is not conducted at the expense of regions of current Member States bordering candidate countries, as well as regions most severely affected by changes of European and global value chains.

The EU has decided to expand to include nations from the western Balkans —namely Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia— as well as to the East (Moldova, Ukraine and Georgia). These countries all have GDP per capita significantly lower than Bulgaria, which is presently the least developed EU27 Member State. For instance, in 2022 Montenegro, the most advanced of these Candidate Countries, had a GDP per capita of just 50% of the EU27 average measured in purchasing power parity. Bosnia and Herzegovina and Albania barely exceeded one third of the EU average. There are no similar statistics for Moldova and Ukraine, but their respective GDPs per capita are bound to be even lower.

Internal territorial inequality in prospective Member States is also rife. For instance, prior to Russia's 2014 invasion of Crimea, internal disparities in Ukraine surpassed those of the EU as a whole. There was also marked territorial polarisation. Between 1999 and 2013, while Kyiv's GDP per capita grew at an impressive 23% per annum, growth in the Zaporizhia region was a mere tenth of this rate.[162] Additionally, countries like Moldova and Bosnia and Herzegovina have acute governance and institutional challenges, while still grappling with issues such as economic underdevelopment and inadequate infrastructure.

In this final section of the report, we investigate the potential effects of enlargement on Cohesion Policy. By learning from the past and proposing future strategies, we emphasise the vital role of Cohesion Policy in ensuring the smooth integration of these new Member States, thereby strengthening the EU's unity and prosperity and the capacity of Candidate Countries to catch up.

The EU has considerable experience with enlargements. The current Cohesion Policy was born as a policy to, among other things, make the accession of Spain and Portugal successful.[163] The future enlargement will be the eighth. Of the previous seven, six included new Member States that were poorer than the then-poorest EU member. The 1995 enlargement was the only exception. Cohesion Policy has played a key role in almost every enlargement, facilitating the incorporation of new Member States in a way that benefited them and the rest of the Union. It has allowed the EU to effectively combine enlargement and deepening. Hence, as the EU embarks on a process that should take it from 27 to 36 Member States, it is important to remind ourselves that cohesion concerns enlargement.[164] For example in 2004, during the biggest enlargement to date in terms of the number of countries and population, Cohesion Policy investments helped integrate nations that had been behind the Iron Curtain barely a decade earlier. In these instances, even modest Cohesion Policy investments laid the groundwork for the significant transformations that followed. Investments included EUR 23 million in Slovenia, EUR 56 million in Estonia, EUR 122 million in Lithuania or EUR 181 million in Slovakia during the 2000-2006 programming period. Even the EUR 1.19 billion invested in Poland looks small, especially compared to the EUR 11.42 billion allocated to Spanish regions in the same period. However, these funds were crucial in preparing countries in central and eastern Europe for the impressive economic leap forward they experienced post-accession (see Figure 1). Relatively small investments set the stage for rapid development and led to subsequent increases in funding, contributing to advances in infrastructure, investment in productive capital, human capital, FDI, environmental conditions and employment in all post-2004 member countries.

As with past expansions, Cohesion Policy should play a crucial role in addressing the substantial challenges of the eighth enlargement. The complex situation in which many Candidate Countries find themselves underscores the need for a robust and adaptable Cohesion Policy tailored to the individual circumstances of each country. These range from institutional issues in many of the candidates, to post-conflict recovery in Bosnia-Hercegovina and Kosovo, as well as the Ukrainian post-war conundrum. In all cases, Cohesion Policy can lay the groundwork by providing basic investment for integration and development, regardless of the condition of each country.

However, the role of Cohesion Policy goes well beyond basic investment. It should play just as important a role by focusing on institution and capacity building, including twinning programmes and support to civil society and social partners. Institutional improvements will prepare the ground for more effective public policies and greater development. The post-EU accession experience of the Baltic States exemplifies this, where enhanced institutional capacities have led to more efficient use of Cohesion Policy funds, speeding up their integration and economic growth. The funds have also contributed to countries that are at the forefront of effective policy-making.

In any case, given the vast differences in challenges for the Candidate Countries, a custom-made approach to Cohesion Policy is necessary, also considering ad hoc tools with an emphasis on technical expertise involving EU and Member State teams. Albania and North Macedonia, for instance, have distinct economic and social structures compared to current EU members. Ukraine, meanwhile, will require a substantial reconstruction effort following the Russian war of aggression. A bespoke place-based strategy for each country and region will ensure that Cohesion Policy investments are aligned with the specific developmental needs and priorities of each country and region. The long-term benefits of a well-implemented Cohesion Policy for new members include sustainable growth, social cohesion and enhanced competitiveness. The inclusion of all these countries could also serve as a stabilising factor in a historically fractured and contentious part of Europe, laying the foundations for far greater social and political stability and, consequently, more sustainable economic development.

Enlargements also impact current Member States and their regions as new territories join the single market and affect international value chain and labour migration in the EU. Therefore, additional funds are needed to invest in regions bordering Candidate Countries, as well as regions in current Member States severely affected by changes in EU and global value chains in the wake of enlargement.

However, considering the magnitude of the challenges, particularly in Ukraine, relying solely on Cohesion Policy is not enough. The EU will need to undertake specifically targeted interventions, possibly using ad hoc mechanisms to ensure the most pressing and difficult issues such as reconstruction are effectively addressed. Only in this way can the impact and returns of any future public policy be maximised.

In conclusion, enlargement towards the western Balkans and the East is strategically important for the EU. This enlargement poses substantial challenges but also offers major opportunities. Its success will depend on a joint effort from EU policymakers and Member States who must demonstrate the political will and allocate the necessary resources to make it a reality. Enlargement is a unique chance to reaffirm the values and objectives of the Union and a strong Cohesion Policy is vital for its success. By drawing lessons from past experiences and adapting to current challenges, the EU can ensure that Cohesion Policy cements this enlargement, contributing to a more stable, prosperous and cohesive Europe.

REFERENCE LIST

Accetturo, A., De Blasio, G., & Ricci, L. (2014). A tale of an unwanted outcome: Transfers and local endowments of trust and cooperation. *Journal of Economic Behavior & Organization*, 102, 74–89.

Balland, P. A., Boschma, R., & Frenken, K. (2015). Proximity and innovation: From statics to dynamics. *Regional Studies*, 49(6), 907-920.

Balland, P. A., & Boschma, R. (2024). An evolutionary perspective on regional development traps: An empirical analysis of European regions. Mimeo.

Barca, F. (2009). *An agenda for a reformed cohesion policy: A place-based approach to meeting European Union challenges and expectations*. Brussels: European Communities.

Barca, F., McCann, P., & Rodríguez-Pose, A. (2012). The case for regional development intervention: Place-based versus place-neutral approaches. *Journal of Regional Science*, 52(1), 134–152.

Bathelt, H., Malmberg, A., & Maskell, P. (2004). Clusters and knowledge: Local buzz, global pipelines and the process of knowledge creation. *Progress in Human Geography*, 28(1), 31–56.

Becker, S. O., Egger, P. H., & Von Ehrlich, M. (2010). Going NUTS: The effect of EU Structural Funds on regional performance. *Journal of Public Economics*, 94(9-10), 578–590.

Becker, S. O., Egger, P. H., & Von Ehrlich, M. (2012). Too much of a good thing? On the growth effects of the EU's regional policy. *European Economic Review*, 56(4), 648–668.

Becker, S. O., Egger, P. H., & Von Ehrlich, M. (2013). Absorptive capacity and the growth and investment effects of regional transfers: A regression discontinuity design with heterogeneous treatment effects. *American Economic Journal: Economic Policy*, 5(4), 29–77.

Berès, P. (2024). Contribution by Pervenche Berès. In Caputo, M. & Pittella, G. (eds.) Cohesion Policy.

Berkowitz, P., Monfort, P., & Pieńkowski, J. (2020). Unpacking the growth impacts of European Union Cohesion Policy: Transmission channels from Cohesion Policy into economic growth. *Regional Studies*, 54(1), 60–71.

Bornschier, S., Häusermann, S., Zollinger, D., & Colombo, C. (2021). How 'us' and 'them' relates to voting behavior—social structure, social identities, and electoral choice. *Comparative Political Studies*, 54(12), 2087–2122.

Böhm, H. (2023). Reinforcing territorial cooperation and addressing challenges on European integration. Brussels: Paper prepared for the High-level Group on the Future of Cohesion Policy.

Boschma, R. (2005). Proximity and innovation: a critical assessment. *Regional Studies*, 39(1), 61-74.

Boschma, R. (2023). Cohesion policy and its contribution to enhancing regional resilience against emerging challenges. Brussels: Paper prepared for the High-level Group on the Future of Cohesion Policy.

Boschma, R., Miguelez, E., Moreno, R., & Ocampo-Corrales, D. B. (2023). The Role of Relatedness and Unrelatedness for the Geography of Technological Breakthroughs in Europe. *Economic Geography*, 99(2), 117-139.

Breidenbach, P., Mitze, T., & Schmidt, C. M. (2016). EU structural funds and regional income convergence—A sobering experience. Available at SSRN: http://dx.doi.org/10.2139/ssrn.2758674.

Burnside, C., & Dollar, D. (2000). Aid, policies, and growth. *American Economic Review*, 90(4), 847–868.

Capello, R., Caragliu, A., & Fratesi, U. (2018). Measuring border effects in European cross-border regions. *Regional Studies*, 52(7), 986–996.

Castaldi, C., & Mendonça, S. (2022). Regions and trademarks: research opportunities and policy insights from leveraging trademarks in regional innovation studies. *Regional Studies*, 56(2), 177-189.

Cerqua, A., & Pellegrini, G. (2018). Are we spending too much to grow? The case of Structural Funds. *Journal of Regional Science*, 58(3), 535–63.

Charron, N. (2023). Citizen attitudes toward EU regional policy. Brussels: Paper prepared for the High-level Group on the Future of Cohesion Policy.

Charron, N., Lapuente, V., Bauhr, M., & Annoni, P. (2022). Change and Continuity in Quality of Government: Trends in subnational quality of government in EU member states. *Investigaciones Regionales-Journal of Regional Research*, 2022(53), 5-23.

Chen, W., Los, B., McCann, P., Ortega-Argilés, R., Thissen, M., & Van Oort, F. (2018). The continental divide? Economic exposure to Brexit in regions and countries on both sides of The Channel. *Papers in Regional Science*, 97(1), 25–54.

Cohen, J. L., & Kharas, H. (2018). Using big data and artificial intelligence to accelerate global development. Brookings. Retrieved from https://www.brookings.edu.

Crescenzi, R., De Blasio, G., & Giua, M. (2020). Cohesion Policy incentives for collaborative industrial research: Evaluation of a Smart Specialisation forerunner programme. *Regional Studies*, 54(10), 1341–53.

Crescenzi, R., Di Cataldo, M., & Giua, M. (2021). FDI inflows in Europe: Does investment promotion work? *Journal of International Economics*, 132, 103497.

Crescenzi, R., & Giua, M. (2016). Different approaches to the analysis of EU Cohesion Policy: Leveraging complementarities for evidence-based policy learning. In J. Bachtler, P. Berkowitz, S. Hardy, & T. Muravska (Eds.), *EU Cohesion Policy*. London: Routledge.

Crescenzi, R., & Giua, M. (2020). One or many Cohesion Policies of the European Union? On the differential economic impacts of Cohesion Policy across member states. *Regional Studies*, 54(1), 10–20.

Crescenzi, R., Giua, M., & V. Sonzogno, G. (2021). Mind the Covid-19 crisis: An evidence-based implementation of Next Generation EU. *Journal of Policy Modeling*, 43(2), 278–97.

Crescenzi, R., & Harman, O. (2023a). Harnessing Global Value Chains for regional development: How to upgrade through regional policy, FDI, and trade (1st ed.). Routledge. https://doi.org/10.4324/9781003356141.

Crescenzi, R., & Harman, O. (2023b). From local regions in the EU to those in Ukraine (and back again): How FDI and global value chains tie our local economies together. In Y. Gorodnichenko & V. Rashkovan (Eds.), *Supporting Ukraine: More critical than ever.* CEPR Press, London & Paris. https://cepr.org/publications/books-and-reports/supporting-ukraine-more-critical-ever

Czarnitzki, D., Lopes Bento, C., & Doherr, T. (2011). Counterfactual impact evaluation of cohesion policy: Examples from Support to Innovation and Research. Final Report European Commission, 2011.

Dall'erba, S. (2005). Distribution of regional income and regional funds in Europe 1989–1999: An exploratory spatial data analysis. *Annals of Regional Science*, 39, 121–148.

Dall'Erba, S., & Le Gallo, J. (2008). Regional convergence and the impact of European structural funds over 1989–1999: A spatial econometric analysis. *Papers in Regional Science*, 87(2), 219–244.

Dellmuth, L. (2023). Regional inequalities and political trust in a global context. *Journal of European Public Policy*, 1-20.

de Lange, S., van der Brug, W., & Harteveld, E. (2023). Regional resentment in the Netherlands: A rural or peripheral phenomenon?. *Regional Studies*, 57(3), 403-415.

De Noni, I., Orsi, L., & Belussi, F. (2018). The role of collaborative networks in supporting the innovation performances of lagging-behind European regions. *Research Policy*, 47(1), 1-13.

Di Cataldo, M. (2017). The impact of EU Objective 1 funds on regional development: Evidence from the U.K. and the prospect of Brexit. *Journal of Regional Science*, 57(5), 814–39.

Di Cataldo, M., Monastiriotis, V., & Rodríguez-Pose, A. (2022). How 'smart' are smart specialization strategies? *JCMS: Journal of Common Market Studies*, 60(5), 1272–1298.

Diemer, A., Iammarino, S., Rodríguez-Pose, A., & Storper, M. (2022). The regional development trap in Europe. *Economic Geography*, 98(5), 487-509.

Dijkstra, L., Poelman, H., & Rodríguez-Pose, A. (2020). The geography of EU discontent. *Regional Studies*, 54(6), 737-753.

Doloreux, D., & Shearmur, R. (2012). Collaboration, information and the geography of innovation in knowledge intensive business services. *Journal of Economic Geography*, 12(1), 79-105.

Dunin-Wąsowicz, R., & Gartzou-Katsouyanni, K. (2023). Geographical Dimensions of Populist Euroscepticism. *Political Studies Review*, 14789299231201810.

Ederveen, S., De Groot, H. L., & Nahuis, R. (2006). Fertile soil for structural funds? A panel data analysis of the conditional effectiveness of European cohesion policy. *Kyklos*, 59(1), 17-42.

Ederveen, S., Gorter, J., De Mooij, R., & Nahuis, R. (2002). Funds and games: The economics of European Cohesion Policy. CPB Special Publication, 41.

Eder, J. (2019). Innovation in the periphery: A critical survey and research agenda. *International Regional Science Review*, 42(2), 119-146.

European Commission (2023). Harnessing talent in Europe's regions. Strasbourg: Communication from the European Commission to the European Parliament.

European Committee of the Regions (2023). *The state of regions and cities*. *EU annual report 2023*. Brussels: European Commission.

European Youth Forum (2021). Beyond lockdown: The 'pandemic scar' on young people. Brussels: European Youth Forum. https://www.youthforum.org/files/European20Youth20Forum20Report20v1.2.pdf.

Ezcurra, R., & Pascual, P. (2007). Regional polarisation and national development in the European Union. *Urban Studies*, 44(1), 99-122.

Ferrara, A. R., McCann, P., Pellegrini, G., Stelder, D., & Terribile, F. (2017). Assessing the impacts of Cohesion Policy on EU regions: A non-parametric analysis on interventions promoting research and innovation and transport accessibility. *Papers in Regional Science*, 96(4), 817–841.

Fiorentino, S., Glasmeier, A. K., Lobao, L., Martin, R., & Tyler, P. (2023). 'Left behind places': What are they and why do they matter? *Cambridge Journal of Regions, Economy and Society*, rsad044.

Fitjar, R. D., & Huber, F. (2014). Global pipelines for innovation: insights from the case of Norway. *Journal of Economic Geography*, 15(3), 561-583.

Fitjar, R. D., & Rodríguez-Pose, A. (2013). Firm collaboration and modes of innovation in Norway. *Research Policy*, 42(1), 128-138.

Fratesi, U. (2016). Impact assessment of EU Cohesion policy: Theoretical and empirical issues. *Handbook on Cohesion Policy in the EU*, 443.

Fratesi, U., & Wishlade, F. G. (2017). The impact of European Cohesion Policy in different contexts. *Regional Studies*, 51(6), 817-821.

Fritsch, M., & Wyrwich, M. (2021). Does successful innovation require large urban areas? Germany as a counterexample. *Economic Geography*, 97(3), 284-308.

Garcilazo, E., & Oliveira Martins, J. (2015). The contribution of regions to aggregate growth in the OECD. *Economic Geography*, 91(2), 205-221.

Garretsen, H., McCann, P., Martin, R., & Tyler, P. (2013). The future of regional policy. *Cambridge Journal of Regions, Economy and Society*, 6(2), 179-186.

Gartzou-Katsouyanni, K., Kiefel, M., & Olivas Osuna, J. J. (2022). Voting for your pocketbook, but against your pocketbook? A study of Brexit at the local level. *Politics & Society*, 50(1), 3-43.

German Federal Ministry for Economic Cooperation and Development. (2021). German Supply Chain Act.

Gertler, M. S. (2010). Rules of the game: The place of institutions in regional economic change. *Regional Studies*, 44(1), 1-15.

Glaeser, E. (2011). *Triumph of the city: How urban spaces make us human*. New York: Pan Macmillan.

Gough, D., Maidment, C., & Sharples, J. (2018). *UK What Works Centres: aims, methods and contexts*. EPPI-Centre, Social Science Research Unit, UCL Institute of Education. London: University College London.

Grillitsch, M., Coenen, L., & Morgan, K. (2024). Directionality and subsidiarity: Sustainability challenges in regional development policy. Mimeo.

Grillitsch, M., & Nilsson, M. (2015). Innovation in peripheral regions: Do collaborations compensate for a lack of local knowledge spillovers?. *Annals of Regional Science*, 54, 299-321.

Guilluy, C. (2011). Les métropoles et la France périphérique: Une nouvelle géographie sociale et politique. *Le Débat*, (1), 42-52.

Guilluy, C. (2019). *Twilight of the Elites: Prosperity, the Periphery, and the Future of France*. New Haven: Yale University Press.

Hannemann, M., Henn, S., & Schäfer, S. (2023). Regions, emotions and left-behindness: a phase model for understanding the emergence of regional embitterment. *Regional Studies*, 1-12.

Henderson, R. (2017). *Reimagining Capitalism in a World on Fire.* Cambridge, MA: Harvard Business Review Press.

Henn, S., & Hannemann, M. (2023). Populist resentments and identities and their repercussions on firms and regions. The example of East Thuringia. *Journal of Economic Geography,* lbad017.

Iammarino, S. (2023). Cohesion Policy and its contribution to addressing different development needs of regions. Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

Iammarino, S., Rodriguez-Pose, A., & Storper, M. (2019). Regional inequality in Europe: evidence, theory and policy implications. *Journal of Economic Geography*, 19(2), 273-298.

Iammarino, S., Rodríguez-Pose, A., Storper, M., & Diemer, A. (2020). Falling into the middle-income trap? – A study on the risks for EU regions to be caught in a middle-income trap. Brussels: Publications Office, 2020, https://data.europa.eu/doi/10.2776/02363

Johnstone, N., & Labonne, J. (2018). *Environmental Policy and Corporate Behavior*. Edward Elgar Publishing.

Kemeny, T., & Storper, M. (2023). The changing shape of spatial income disparities in the United States. *Economic Geography,* 1-30.

Kivimaa, P. (2023). Capabilities for regions to support net-zero-carbon transitions and implications for Cohesion Policy. Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

Kline, P., & Moretti, E. (2014). Local economic development, agglomeration economies, and the big push: 100 years of evidence from the Tennessee Valley Authority. *Quarterly Journal of Economics*, 129(1), 275-331.

Kummu, M., Taka, M. and Guillaume, J.H.A. (2018). Gridded global datasets for Gross Domestic Product and Human Development Index over 1990–2015. *Scientific Data*, February 2018, volume 5.

Larsson, J. P., Öner, Ö., & Sielker, F. (2021). Regional hierarchies of discontent: an accessibility approach. *Cambridge Journal of Regions, Economy and Society*, 14(3), 583-599.

Lee, N., Morris, K., & Kemeny, T. (2018). Immobility and the Brexit vote. *Cambridge Journal of Regions, Economy and Society*, 11(1), 143-163.

Le Galès, P., & Pierson, P. (2019). 'Superstar Cities' & the generation of durable inequality. *Daedalus*, 148(3), 46-72.

Liu, C., & Ma, G. (2019). Are place-based policies always a blessing? Evidence from China's national poor county programme. *Journal of Development Studies*, 55(7), 1603-1615.

Los, B., McCann, P., Springford, J., & Thissen, M. (2017). The mismatch between local voting and the local economic consequences of Brexit. *Regional Studies*, 51(5), 786-799.

MacKinnon, D., Cumbers, A., Pike, A., Birch, K., & McMaster, R. (2009). Evolution in economic geography: institutions, political economy, and adaptation. *Economic Geography*, 85(2), 129-150.

MacKinnon, D., Kempton, L., O'Brien, P., Ormerod, E., Pike, A., & Tomaney, J. (2022). Reframing urban and regional 'development' for 'left behind' places. *Cambridge Journal of Regions, Economy and Society*, 15(1), 39-56.

Maucorps, A., Römisch, R., Schwab, T., & Vujanović, N. (2022). The Future of EU Cohesion. Effects of the Twin Transition on Disparities across European Regions. Bertelsmann Stiftung.

McKay, L., Jennings, W., & Stoker, G. (2023). Understanding the geography of discontent: Perceptions of government's biases against left-behind places. *Journal of European Public Policy,* 1-30.

McKinsey Global Institute (2023). Pixels of Progress: A granular look at human development around the world. McKinsey Global Institute. Retrieved from https://www.mckinsey.com/mgi/our-research/pixels-of-progress-introduction.

Medeiros, E. (2023). Reinforcing territorial cooperation and addressing challenges on European integration. Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

Mohl, P., & Hagen, T. (2011). Do EU structural funds promote regional employment? Evidence from dynamic panel data models (No. 1403). ECB Working paper.

Moreno, R., Paci, R., & Usai, S. (2005). Geographical and sectoral clusters of innovation in Europe. *Annals of Regional Science*, 39, 715-739.

Morgan, K. (2017). Nurturing novelty: Regional innovation policy in the age of smart specialisation. *Environment and Planning C: Politics and Space*, 35(4), 569-583.

Muro, M., Maxim, R., Parilla, J., & de Souza Briggs, X. (2023). Breaking down an US$80 billion surge in place-based industrial policy. Washington, DC: Brookings Institution. Retrieved from https://www.brookings.edu/articles/breaking-down-an-80-billion-surge-in-place-based-industrial-policy/

Mykhnenko, V. (2020). Causes and consequences of the war in Eastern Ukraine: an economic geography perspective. *Europe-Asia Studies*, 72(3), 528-560.

Neffke, F., Henning, M., & Boschma, R. (2011). How do regions diversify over time? Industry relatedness and the development of new growth paths in regions. *Economic Geography*, 87(3), 237-265.

Norris, P., & Inglehart, R. (2019). *Cultural backlash: Trump, Brexit, and authoritarian populism*. Cambridge: Cambridge University Press.

OECD (2023a), OECD Regional Outlook 2023: The Longstanding Geography of Inequalities, OECD Publishing, Paris. Retrieved from https://doi.org/10.1787/92cd40a0-en.

OECD (2023b), Rethinking Regional Attractiveness in the New Global Environment, OECD Regional Development Studies, OECD Publishing, Paris. Retrieved from https://doi.org/10.1787/a9448db4-en.

Olivas Osuna, J. J., Kiefel, M., & Gartzou Katsouyanni, K. (2021). Place matters: Analyzing the roots of political distrust and Brexit narratives at a local level. *Governance*, 34(4), 1019-1038.

Ortega-Argilés, R. (2023). How to reinforce the place-based approach to cohesion policy? Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

Pellegrini, G., F. Terribile, O. Tarola, T. Muccigrosso, and F. Busillo (2013). 'Measuring the effects of European Regional Policy on economic growth: A regression discontinuity approach'. *Papers in Regional Science*, 92(1), 217–33.

Percoco, M. (2017). Impact of European Cohesion Policy on regional growth: does local economic structure matter?. *Regional Studies*, 51 (6), 833–43.

Pike, A., Béal, V., Cauchi-Duval, N., Franklin, R., Kinossian, N., Lang, T., ... & Velthuis, S. (2023). 'Left behind places': a geographical etymology. *Regional Studies*, 1-13.

Pike, A., Rodríguez-Pose, A., & Tomaney, J. (2016). *Local and regional development*. London: Routledge.

Pinker, S. (2018). *Enlightenment now: The case for reason, science, humanism, and progress*. London: Penguin UK.

Polverari, L. (2023). How to better support administrative capacity to improve the effectiveness of Cohesion Policy. Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

Rice, P.G., and Venables, A.J., 2022, 'Tradability, Productivity and Regional Disparities; theory and UK evidence' , DP no. 21 The Productivity Institute, Manchester.

Rodríguez-Pose, A. (2013). Do institutions matter for regional development? *Regional Studies*, 47(7), 1034-1047.

Rodríguez-Pose, A. (2018). The revenge of the places that don't matter (and what to do about it). *Cambridge journal of Regions, Economy and Society*, 11(1), 189-209.

Rodríguez-Pose, A., & Bartalucci, F. (2023). The green transition and its potential territorial discontents. *Cambridge Journal of Regions, Economy and Society*, rsad039.

Rodríguez-Pose, A., & Crescenzi, R. (2008). Research and development, spillovers, innovation systems, and the genesis of regional growth in Europe. *Regional Studies*, 42(1), 51-67.

Rodríguez-Pose, A., & Dijkstra, L. (2021). Does cohesion policy reduce EU discontent and Euroscepticism?. *Regional Studies*, 55(2), 354-369.

Rodríguez-Pose, A., Dijkstra, L., & Poelman, H. (2023). The geography of EU discontent and the regional development trap in Europe. Working papers in Regional and Urban Policy, WP 03/2023. Luxembourg: Publications Office of the European Union.

Rodríguez-Pose, A., & Garcilazo, E. (2015). Quality of government and the returns of investment: Examining the impact of cohesion expenditure in European regions. *Regional Studies,* 49(8), 1274-1290.

Rodríguez-Pose, A., Iammarino, S., & Storper, M. (2019). Regional inequality in Europe: evidence, theory and policy implications. *Journal of Economic Geography*, 19(2), 273-298.

Rodríguez-Pose, A., & Ketterer, T. (2019). Institutional change and the development of lagging regions in Europe. *Regional Studies*. 54 (7): 974-986.

Rodríguez-Pose, A., & Novak, K. (2013). Learning processes and economic returns in European Cohesion policy. *Investigaciones Regionales-Journal of Regional Research*, (25), 7-26.

Rosenthal, S., & Strange, W. (2004). 'Evidence on the nature and sources of agglomeration economies', in V. Henderson & J-F. Thisse (eds), *Handbook of Regional and Urban Economics*, vol 4, pp 2119-2171. Elsevier, Amsterdam.

Rupasingha, A., Liu, Y., & Partridge, M. (2015). Rural bound: Determinants of metro to non-metro migration in the United States. *American Journal of Agricultural Economics*, 97(3), 680-700.

Sandbu, M. (2020). *The economics of belonging: A radical plan to win back the left behind and achieve prosperity for all.* Princeton: Princeton University Press.

Shearmur, R. (2011). Innovation, regions and proximity: from neo-regionalism to spatial analysis. *Regional Studies*, 45(9), 1225-1243.

Storper, M. (2013). *Keys to the city: How economics, institutions, social interaction, and politics shape development.* Princeton: Princeton University Press.

Storper, M. (2023). Development: A Conceptual Framework for Cohesion Policy. Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

Swedish Energy Agency. (2020). Energy in Sweden – Facts and Figures 2020.

Taylor, P. J., & Walker, D. R. F. (2001). World cities: a first multivariate analysis of their service complexes. *Urban Studies,* 38(1), 23-47.

Tomaney, J., Blackman, M., Natarajan, L., Panayotopoulos-Tsiros, D., Sutcliffe-Braithwaite, F., & Taylor, M. (2023). Social infrastructure and 'left-behind places'. *Regional Studies*, 1-14.

United Nations Conference on Trade and Development. (2021). World Investment Report 2021.

Vasilopoulou, S., & Talving, L. (2023). Euroscepticism as a syndrome of stagnation? Regional inequality and trust in the EU. *Journal of European Public Policy*, 1-22.

Veltz, P. (1999). *Métropoles, périphéries et économie mondiale: une économie d'archipel. Entre la métropolisation et le village global*. Presse de l'Université du Québec, 49-60.

Venables, A. J. (2023). The case for place-based policy. Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

Villasenor, J. (2018). Artificial intelligence and the future of geopolitics. Brookings. Retrieved from https://www.brookings.edu

Wes, M. (2023). Anchoring financing in results & reforms: Key takeaways from World Bank experience. Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

West, D. M. (2018). What is artificial intelligence? Brookings. Retrieved from https://www.brookings.edu

World Bank. (2009). *World Development Report 2009: Reshaping Economic Geography*. Washington, DC: World Bank. http://hdl.handle.net/10986/5991

Xiao, J., Boschma, R., & Andersson, M. (2018). Industrial diversification in Europe: The differentiated role of relatedness. *Economic Geography*, 94(5), 514-549.

Zeitlin, J., Bokhorst, D., & Eihmanis, E. (2023). Rethinking the Governance and Delivery of the Cohesion Policy Funds: Is the Recovery and Resilience Facility (RRF) a Model? Brussels: paper prepared for the High-level Group on the Future of Cohesion Policy.

ENDNOTES

1 See the directive on minimum wage, the Skills Pact, Youth and Child guarantees, the strategies on care, LGBTI, Roma inclusion, gender equality, anti-racism, disability, the Council Recommendation on minimum income, the initiative on strengthening social dialogue, among others.

2 Diemer et al., 2022; Fiorentino et al. 2023.

3 Crescenzi and Harman, 2023.

4 Pinker, 2018.

5 McKinsey Global Institute, 2023.

6 Glaeser, 2011; Le Galès and Pierson, 2019; Kemeny and Storper, 2023; Storper, 2023.

7 Rosenthal and Strange, 2004; Venables, 2023.

8 Iammarino et al., 2019; Iammarino, 2023; Storper, 2023.

9 Iammarino et al., 2020; Diemer et al., 2022; Iammarino, 2023.

10 Diemer et al., 2022.

11 Fiorentino et al., 2023.

12 European Commission, 2023.

13 Balland and Boschma, 2024.

14 Iammarino et al., 2019; Iammarino, 2023.

15 Ezcurra and Pascual, 2007; OECD, 2023a.

16 European Youth Forum, 2021.

17 OECD, 2023a.

18 OECD 2023a.

19 OECD, 2023b.

20 Giarda and Moroni, 2018.

21 Crescenzi and Harman, 2023a.

22 Crescenzi and Harman, 2023b.

23 Crescenzi et al., 2021.

24 Stevens and Kanie, 2016.

25 Henderson, 2017.

26 German Federal Ministry for Economic Cooperation and Development, 2021.

27 Swedish Energy Agency, 2020.

28 Villasenor, 2018.

29 Cohen and Kharas, 2018.

30 Villasenor, 2018.

31 Center For Global Development, 2021.

32 Center For Global Development, 2021.

33 Crescenzi & Harman 2023a.

34 Storper, 2023.

35 World Bank, 2009.

36 Rice and Venables, 2022; Venables, 2023.

37 Iammarino et al., 2019; Diemer, 2022; and Storper, 2023.

38 Venables, 2023.

39 Venables, 2023.

40 Storper, 2013.

41 Boschma, 2005 ; Iammarino et al., 2019.

42 Moreno et al., 2005; Rodríguez-Pose and Crescenzi, 2008.

43 Rupasingha et al., 2015; Lee et al., 2018.

44 Rodríguez-Pose, 2018).

45 e.g., World Bank, 2009; Kline and Moretti, 2014.

46 Barca et al., 2012.

47 Dijkstra et al., 2013.

48 Garcilazo and Oliveira Martins, 2015.

49 Dijkstra et al., 2013.

50 Fritsch and Wyrwich, 2021.

51 Grillitsch and Nilsson, 2015; Rodríguez-Pose and Griffiths, 2021.

52 Sandbu, 2020; Dellmuth, 2023; McKay et al., 2023; Pike et al., 2023; Vasilopoulou and Talving, 2023.

53 Dijkstra et al., 2020; Vasilopoulou and Talving, 2023.

54 Guilluy, 2019; De Lange et al, 2023

55 McKinnon et al, 2022.

56 Dijkstra et al., 2020.

57 Rodríguez-Pose, 2018.

58 Los et al., 2017; Olivas Osuna et al., 2021; Gartzou-Katsouyanni et al., 2022.

59 Rodríguez-Pose et al., 2023.

60 Larson et al., 2021.

61 Brzezinski, 2013; Henn and Hannemann, 2023.

62 Dunin-Wąsowicz and Gartzou-Katsouyanni, 2023.

63 McKinsey Global Institute, 2023.

64 Norris and Inglehart, 2019; Bornschier et al., 2021; Rodríguez-Pose et al., 2023.

65 Iammarino, 2023; Rodríguez-Pose et al., 2023.

66 Rodríguez-Pose and Dijkstra, 2021; Vasilopoulou and Talving, 2023.

67 Chen et al., 2018.

68 Sandbu, 2020; Rodríguez-Pose and Dijkstra, 2021; Hannemann et al., 2023.

69 Storper, 2023; Venables, 2023.

70 Storper, 2023.

71 Beugelsdijk and Eijffinger, 2005; Dall'erba, 2005; Ferrara et al., 2017

72 Dall'erba & Le Gallo, 2008; Mohl and Hagen, 2011; McCann, 2015; Fratesi, 2016; Berkowitz et al, 2020.

73 Breidenbach et al., 2016.

74 Crescenzi and Giua, 2016.

75 e.g. Becker et al., 2010, 2013; Pellegrini et al., 2013; Crescenzi and Giua, 2020.

76 Ferrara et al., 2017.

77 Accetturo et al., 2014.

78 Cerqua and Pellegrini, 2018.

79 Percoco, 2017.

80 Czarnitzki et al., 2011; Ferrara et al., 2017.

81 Crescenzi and Giua, 2020.

82 Rodríguez-Pose and Fratesi, 2004; Crescenzi and Rodríguez-Pose, 2012.

83 Rodríguez-Pose and Novak, 2014.

84 Rodríguez-Pose and Dijkstra, 2021.

85 Muro et al., 2023.

86 Muro et al., 2023.

87 Liu and Ma, 2019.

.88 Crescenzi and Giua, 2016; Huguenot-Noël, 2023.

89 Storper, 2023.

90 Di Cataldo et al., 2022; Boschma, 2023.

91 Huguenot-Noël, 2023.

92 Polverari, 2023.

93 Huguenot-Noël, 2023.

94 Venables, 2023.

95 Ballantyne et al., 2023.

96 Crescenzi R., De Filippis and Pierangeli, 2015

97 Rodríguez-Pose and Ketterer, 2020; Coman, 2023.

98 Charron, 2023.

99 Ortega-Argilés, 2023.

100 Storper, 2023.

101 Venables, 2023.

102 Veltz, 1999; Taylor and Walker, 2001.

103 Rodríguez-Pose and Crescenzi, 2008.

104 OECD, 2023a.

105 Pike et al., 2016.

106 Iammarino et al., 2020; Diemer et al., 2022.

107 Fiorentino et al, 2023.

108 Iammarino et al., 2020; Iammarino, 2023.

109 Bathelt et al., 2004; Fitjar and Rodríguez-Pose, 2013; Grillitsch and Nilsson, 2015.

110 Tomaney et al., 2023.

111 Balland et al, 2015.

112 Capello et al., 2018.

113 Hynek, 2023; Medeiros, 2023.

114 Barca, 2009; Barca et al., 2012.

115 Pike et al., 2016.

116 Di Cataldo et al., 2022.

117 Neffke et al., 2011; Balland et al., 2018; Boschma, 2023.

118 Boschma et al., 2023.

119 Pinheiro et al., 2022 ; Boschma, 2023.

120 Fitjar and Rodríguez-Pose, 2013, Grillitsch and Nilsson, 2015.

121 Barca, 2017, p. 7.

122 Xiao et al., 2018.

123 Boschma et al., 2023.

124 Gough et al, 2018.

125 Gertler, 2010; Rodríguez-Pose, 2013.

126 Rodríguez-Pose and Garcilazo, 2015.

127 e.g., Crescenzi et al., 2016.

128 McKinnon et al., 2009.

129 Rodríguez-Pose and Ketterer, 2020.

130 Rodríguez-Pose and Garcilazo, 2015.

131 Morgan, 2017.

132 Pike et al., 2016.

133 Wes, 2023.

134 Polverari, 2013.

135 European Committee of Regions, 2023.

136 Storper, 2023.

137 E.g., Shearmur, 2011; Doloreux and Shearmur, 2012; Fitjar and Rodríguez-Pose, 2013; Grillitsch and Nilsson, 2015; De Nonni et al., 2018; Eder, 2019.

138 Crescenzi and Harman, 2023a.

139 Fitjar and Huber, 2014; Grillitsch and Nilsson, 2015.

140 Pike et al., 2016

141 Crescenzi et al.2021a

142 Castaldi and Mendonça, 2022.

143 Crescenzi, De Filippis, Giua and Vaquero Pineiro, 2022

144 Wes, 2023.

145 Bachtler and Mendez, 2023; Eutopran Court of Auditors, 2023; Zeitlin et al., 2023.

146 Crescenzi, Giua and Sonzogno, 2021b

147 Grillitsch, Coenen, Morgan, 2024.

148 Wes, 2023.

149 Huguenot-Noël, 2023.

150 Bachtler and Mendez, 2022.

151 Coman, 2023.

152 Coman, 2023.

153 Huguenot-Noël, 2023.

154 Zeitlin et al., 2023.

155 Mendez and Bachtler, 2011.

156 Maucorps et al., 2022; Rodríguez-Pose and Bartalucci, 2023.

157 Rodríguez-Pose and Bartalucci, 2023.

158 Maucorps et al., 2022.

159 Garretsen et al., 2013.

160 Berès, 2024.

161 Crescenzi et al. 2015; Crescenzi et al. 2021b

162 Mykhnenko, 2020.

163 Berès, 2024.

164 Berès, 2024.

SOURCES

All the contributions to the works of the Group, including academic papers, issue papers prepared by the European Commission services, inputs from stakeholders, partners, international organisations and EU institutions and bodies can be found at: Inforegio - The future of Cohesion Policy (europa.eu)

GETTING IN TOUCH WITH THE EU

IN PERSON

All over the European Union there are hundreds of Europe Direct information centres. You can find the address of the centre nearest you at: https://europa.eu/european-union/contact_en

ON THE PHONE OR BY EMAIL

Europe Direct is a service that answers your questions about the European Union. You can contact this service:

— by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
— at the following standard number: +32 22999696 or
— by email via: https://europa.eu/european-union/contact_en

FINDING INFORMATION ABOUT THE EU

ONLINE

Information about the European Union in all the official languages of the EU is available on the Europa website at: https://europa.eu/european-union/index_en

EU PUBLICATIONS

You can download or order free and priced EU publications at: https://op.europa.eu/en/publications. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see https://europa.eu/european-union/contact_en).

EU LAW AND RELATED DOCUMENTS

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: https://eur-lex.europa.eu

OPEN DATA FROM THE EU

The EU Open Data Portal (https://data.europa.eu/en) provides access to datasets from the EU. Data can be downloaded and reused for free, for both commercial and non-commercial purposes.

Any question, comment or contribution should be sent to the following address: **REGIO-B1-PAPERS@ec.europa.eu**

Editor: Ana Maria Dobre, European Commission, Directorate-General for Regional and Urban Policy
The texts of this publication do not bind the Commission

Publications Office of the European Union