

Schwab, Thomas

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Thomas Schwab

Quo Vadis, Cohesion Policy? European Regional Development at a Crossroads

European cohesion policy is undergoing a significant identity crisis, with debates intensifying over its fundamental goals and strategies for fostering regional development. Global challenges and shifting geopolitical dynamics further complicate the quest for successful regional development, introducing new trade-offs. This paper presents a comprehensive analysis of the core issues within this debate, explores their broader implications and proposes preliminary recommendations to address the emerging obstacles cohesion policy is facing.

Cohesion policy has never faced such an intense and fundamental debate. In a time of war, trade rivalry, climate change and digital transition, its relevance is under serious question. As Europe's structural policy to improve economic, social and territorial conditions with long-term planning horizons, cohesion policy barely seems to have any place in a world where policymakers overwhelmingly react rapidly to short-term crises.

However, cohesion policy is relevant to most crises and problems in Europe. Unlike many policies enacted at short notice, it aims to address root causes such as a lack of competitiveness, inadequate infrastructure or low institutional quality. It is thus a set of preventive measures designed to make cities, regions and Europe as a whole resilient to future crises. So why is the EU's longest-serving investment instrument under so much pressure to justify its very existence?

Origins and purpose of cohesion policy

When Jacques Delors outlined his vision of the Single Market, he correctly predicted that economic efficiency would not benefit all regions of Europe equally (Jouen, 2017). Thus, in 1993, cohesion policy was brought into being to ensure equitable participation in growth and prosperity across Europe. Its goal was to create a level playing

field by addressing disparities in economic development, structures and geographic conditions. This political ambition was clearly stated in the EU treaties (Article 174 TFEU and Article 130d EC Treaty).

At its core, cohesion policy tries to rebalance the mismatch between efficiency and equity within the Single Market. An efficient market could lead to a further concentration of economic activity in a few urban regions – leaving many places on the periphery behind. Cohesion policy thus seeks to involve all regions and people in shared prosperity. In this sense, it is the flip side of the Single Market.

The policy is not designed as a compensatory mechanism but as an instrument for empowerment. Its purpose is not to act as a “solidarity tax”, supplementing or even replacing member states' social policies, but rather to support regions in establishing equal opportunities for individuals and businesses.

In an increasingly integrated Europe, cohesion policy transcends mere economic equity to address social and territorial disparities. It encompasses investments in physical infrastructure, such as railways and roads, alongside those in education and skills training to bolster social cohesion. Ultimately, cohesion policy strives to fos-

Thomas Schwab, Bertelsmann Stiftung, Berlin, Germany.

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ter comparable living standards for all Europeans, regardless of where they live and work.

The policy also acts in support of other policies. For example, it plays a pivotal role in delivering the Green Deal by ensuring a “just” transition for regions affected in different ways via the Just Transition Fund. Also, the European Regional Development Fund and the Cohesion Fund, both representing the largest chunk of cohesion funding, dedicate at least 30% and 37% respectively of their spending to the green transition (European Parliament Research Service, 2021). Moreover, in response to geopolitical challenges such as the Russian invasion of Ukraine, the policy has been drawn upon to ensure affordable energy prices and support refugee integration, underscoring its relevance in navigating a turbulent and rapidly changing global landscape.

Cohesion policy is labelled “the glue that binds Europeans together” (European Commission, 2024a). And, indeed, it is the prospect of upward convergence in prosperity terms created by the Single Market and cohesion policy that makes the European project so attractive. This success story has garnered international recognition, with institutions like the World Bank (2018) praising Europe as a “convergence machine”. However, failure to uphold this promise risks eroding the EU’s appeal, fostering geographical discontent and undermining European integration (Rodríguez-Pose et al., 2024).

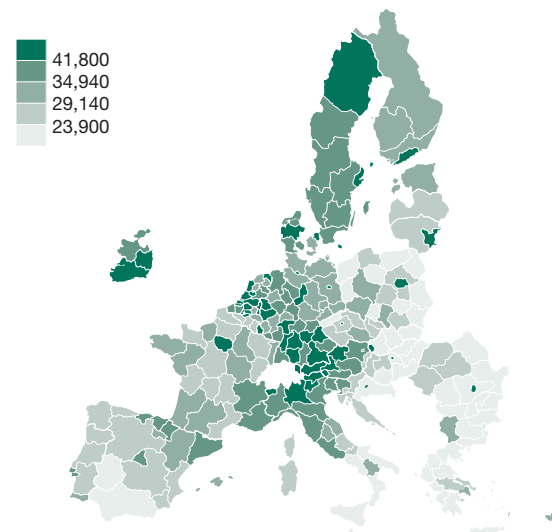
Less inequality – but still work to do

Since the Single Market began in 1993, all European regions have made economic advances (Gerland & Schwab, 2022). However, their progress differs greatly, with regions in Central and Eastern Europe having gained the most. Today, the most prosperous regions, primarily urban, are concentrated in the core of Europe, while many Eastern and Southern rural regions still lag behind in their economic, social and territorial development (see Figure 1).

Overall, disparities across Europe have been eroded – but not equally. Regions in Southern Europe in particular have gained little and even experienced stagnation lately. Hence, there is still considerable scope for improving cohesion.

The policy serves as a significant financial lever for public investments in Europe. For some countries, this can be over 80% of the total (OECD, 2020). Cohesion policy funds are typically augmented with national monies through co-financing and leveraged with private capital, with the European Investment Bank (EIB, 2023) playing a crucial role.

Figure 1
Highest levels of economic prosperity in the core, lowest in the periphery



Note: GDP per capita in 2022, euro (measured in purchasing power parities).

Source: Eurostat (2024), own illustration.

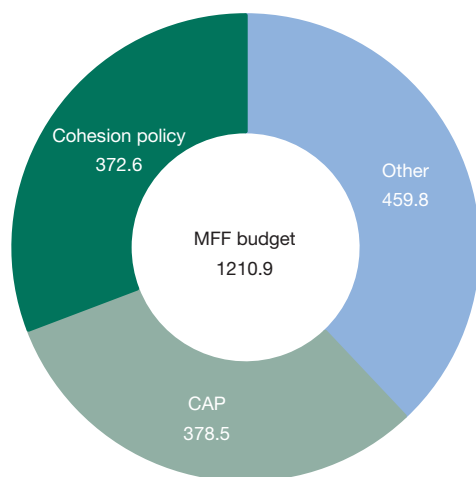
Most cohesion funding is financed from the EU budget: of €1210.9 billion planned for the current Multiannual Financial Framework (MFF), the seven-year EU budget, €372.6 billion are devoted to cohesion funding (see Figure 2) – second in volume only to the common agricultural policy.

Cohesion policy is also about developing regional strategies bottom-up to empower local actors and about facilitating inter-regional cooperation on knowledge exchange. This aims to pave the way for individual place-based regional developments.

Initiatives like the Smart Specialisation Strategies (S3) for innovation exemplify this approach (European Commission, 2009). These strategies identify regional strengths and potentials, providing a platform for various regional stakeholders to collaborate and realise these potentials in research and innovation. This bottom-up approach is vital for all European regions, irrespective of their current development levels, and enhances competitiveness continent-wide.

Fostering cooperation between different regions is crucial for European integration and maximising European value added. The Interreg programme is a prime example of this effort, connecting regions across national borders throughout Europe. Interreg facilitates collaborations,

Figure 2
Cohesion policy makes up the second-largest share in EU spending
 in billion euros



Note: Multiannual Financial Framework (MFF) budget in 2020 prices.

Source: European Commission (2021), author's own illustration.

knowledge exchange and economic development with relatively modest funding, representing around only 3% of the cohesion policy budget (Letta, 2024).

Strengthening institutions is another critical aspect of cohesion policy. Robust institutions are essential for implementing effective development strategies and ensuring sustainable growth. The policy supports institutional capacity-building through various programmes and initiatives, enhancing governance and administrative efficiency across regions (Benford, 2023).

What the current debate is about

With new policy priorities emerging, a changing global landscape, a new EU legislative cycle, and negotiations on the future EU budget set to begin next year, a far-reaching debate on cohesion policy has begun. It broadly encompasses four areas:

- mission
- financing and economics
- optimal policy design with lessons learnt from the Recovery and Resilience Facility (RRF)
- synergies with other policies.

Quest for cohesion policy's mission

Cohesion policy is set up to achieve various goals, such as helping lagging regions to catch up, helping others

maintain their progress in a time of transition and fostering solidarity, especially during crises. Over time, its objectives have evolved (Idczak et al., 2024). Recently, security has been added to the discussion mix to acknowledge the growing importance of Europe's geopolitical dimension (Hunter, 2024). In sum, cohesion policy needs to navigate through multiple trade-offs.

Multi-tool vs precision tool

Economic development is complex, and cohesion policy aims to address numerous aspects simultaneously. However, the policy is already burdened with many goals (Tarschys, 2008), and there is a tendency to expand these objectives even further (Bachtler & Mendez, 2020).

However, too many objectives dilute the effectiveness of pursuing individual goals and create a perception of limited overall progress. Therefore, it is crucial to prioritise and clarify primary objectives. Equally important is to define what cohesion policy is not (primarily) about. This consolidation would better align with the toolbox of European policies and facilitate clearer communication about its purpose to the public.

Consolidating the objectives of cohesion policy is necessary to put the focus on its actual goal: reducing social, economic and territorial disparities across Europe. When prioritising objectives to pursue this goal, emphasis should be on those offering the highest European value added. Examples include fostering competitiveness, accompanying the digital transition or mitigating adverse effects of the green transition.

Long-term vs short-term perspective

Sustainable development of regions requires investments in such things as roads that take time to yield results. However, short-term policy interventions, such as those seen during the COVID-19 pandemic or the energy crisis following the Russian invasion of Ukraine, often take precedence. During these crises, the policy planning horizon shifted from years to mere weeks or even just days. Initiatives like Coronavirus Response Investment Initiative (CRII) and Supporting Affordable Energy (SAFE) exemplify how cohesion policy adapted by redirecting funds to address immediate needs (European Commission, 2021a; European Commission, 2022).

Cohesion policy proved that it can adapt quickly to changing circumstances. However, this clashes with the long-term goal of improving living conditions and economic structures in regions, which requires a sustained commitment. Short-term policy responses should not come at the cost of long-term programming.

Past vs future orientation

Cohesion policy has traditionally focused on overcoming disparities resulting from past adverse developments or misguided policy decisions. This requires tangible investments and structural reforms to resolve outstanding issues.

The green and digital transition has the potential to create new disparities across European regions (Maucorps et al., 2023). Preventing disparities is cheaper than surgical measures to combat them. This requires not only a different set of instruments but could also mean tailoring interventions to different regions. Different strategies and instruments for preventing and resolving disparities are the result. A successful cohesion policy must work on both mitigating existing disparities and avoiding new ones.

All regions vs few regions

Since 2007, all European regions are being addressed by cohesion policy (Bachtler, 2022). However, the focus is clearly on lagging regions, commonly defined by a low share of regional GDP compared to the EU27 average.

The trade-off between funding all regions versus only a few is particularly relevant for EU enlargement. With Ukraine, Moldova and Western Balkan countries potentially joining, many lagging regions will enter the EU. However, there are concerns about reconfiguring the current allocation scheme to ensure that cohesion spending does not explode and enlargement does not come at the expense of “old” regions. But these anxieties are not borne out by recent studies (Nuñez Ferrer et al., 2024; Lindner et al., 2023).

An exclusive focus on the most lagging regions not only shrinks the broader relevance of cohesion policy, but also curtails the application of non-financial instruments with potentially the highest European value added. The biggest asset of cohesion policy is bringing together different regions and fostering knowledge, and this requires the broadest possible participation of all European regions.

Finance and economics

As one of the largest components of EU spending, cohesion policy will be a prime concern in the debate on the next MFF. With the mid-term evaluation for the ongoing period 2021-2027 in play (European Council, 2024), the debate and planning for the next period have already started and are expected to intensify in 2025 and beyond.

Competition for funding

The financial requirements to address contemporary challenges and new policy priorities are enormous. For instance, if Europe is to become climate neutral, additional investments of €300-€600 billion per year are needed (Calipel et al., 2024; European Commission, 2023).

With about one-third of total EU expenditures destined for cohesion, it is tempting to redistribute some of its funds for other policy priorities.

Given the prospect of repaying the loans made for the RRF from 2028 (European Commission, 2021b) – around €30 billion per year – overall fiscal room for manoeuvre is narrowing. Maintaining the status quo of the EU budget will be a big challenge. Overall, it is relatively small. Annually, it nearly matches that of Austria, a small but wealthy member state with a population of 9 million. Considering the EU’s challenges and financial demands on it to address them, this creates a fundamental dilemma going way beyond the discussion of cohesion policy funding.

Resolving this requires either an expansion of the EU budget or political prioritisation. If the latter, economic considerations such as the highest return on investment must be central.

Mixed results on effectiveness

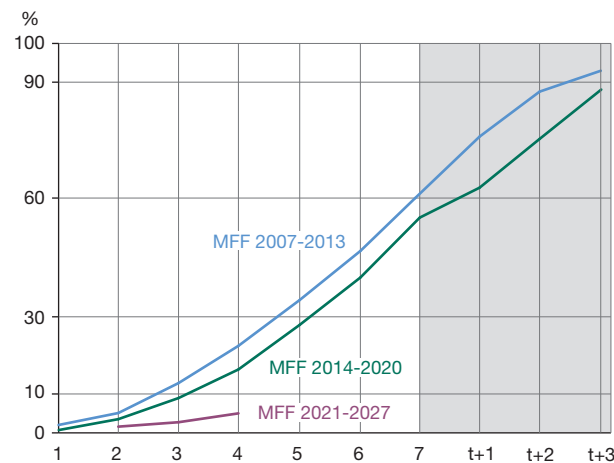
All European regions have gained in economic prosperity since the advent of the Single Market (Gerland & Schwab, 2022). Gains were impressive in Central Eastern Europe. For instance, Poland’s GDP is 40% higher thanks to EU membership (Kopiński et al., 2024). Overall, inequality has declined since 1993.

However, especially in Southern Europe, regions started to stagnate, becoming labelled as being in a “development trap” (Diemer et al., 2022). There is a growing urban-rural divide observable across European regions (Eurofound, 2023). What is more, income inequality seems to be growing within countries (Marzinotto, 2012) and regions (Lang et al., 2022).

Attributing the observed upward convergence in Europe to cohesion policy is increasingly disputed. The findings of the academic literature on the economic effectiveness of cohesion policy are mixed, despite a generally positive tendency (von Ehrlich, 2024; Dall’Erba & Fang, 2015).

Cohesion in Europe has improved since the advent of the Single Market. The exact contribution of cohesion policy to this development is hard to pin down. This requires rig-

Figure 3
Absorption rate of cohesion policy is falling over time



Note: Delayed start of current Multiannual Financial Framework (MFF) period 2021-2027.

Source: European Commission Cohesion Open Data Platform, author's own illustration.

orous research using state-of-the-art methods and better data with higher granularity linked to other sources such as firm information.

Declining absorptive capacity

The absorption rate of cohesion policy funds is declining from one seven-year MFF cycle to the next. Strikingly, at the end of one programming period, just 60% or so of the planned spending has taken place. It will take about three more years to approach 90%.

In the current period, the rate shows an even lower trend. By 2024 or three years in, only 5.1% of available funds have been absorbed (see Figure 3). Despite the usual problem of overlapping spending cycles, the prioritisation of RRF funds for both rapidly approaching deadlines and political reasons are the main drivers here (Nuñez Ferrer & Ruiz de la Ossa, 2022). In addition, the regulation for the current funding cycle was amended in June 2021 – six months after the start of the programming period, i.e. later than ever.

The least developed regions tend to exhibit the lowest absorption rates (European Parliament, 2013). These often expose deficits in the quality of governance and institutional capacity.

The persistently low absorption rates, especially in the least developed regions, reveal shortcomings in cohesion policy design. The EU, member states and regions must

streamline administrative processes, focus more on capacity building and improve institutional quality to ensure that cohesion funding has the most impact.

Lessons learnt from the Recovery and Resilience Facility

The COVID-19 pandemic saw the introduction of NextGenerationEU with the RRF at its core. Initially conceived as a short-term crisis instrument, the RRF turned out to be a tool for structural development – aiming for objectives similar to those of cohesion policy (Cecchi, 2023). Despite this genesis, RRF functioning and mechanisms differ substantially from cohesion policy, making a natural case to benchmark differences in design (see, e.g. European Court of Auditors, 2023).

Bottom-up vs top-down

Cohesion policy is not only grounded in territoriality, but also in bottom-up decision-making. This approach ensures that a diverse array of stakeholders – including local politicians, business leaders, trade unions and other civil society representatives – participate in shaping strategic initiatives. This inclusivity is viewed as a success factor for applying a structural policy that is closely aligned with the real needs of regions and their inhabitants (Cappellano et al., 2024).

The bottom-up approach based on multi-level governance has proven effective in identifying regional pain points, leveraging crowd intelligence and fostering democratic participation with higher stakeholder buy-in. However, this extensive coordination requires time, making cohesion policy relatively slow to implement.

In contrast, the RRF adopts a top-down approach. Here programming is negotiated solely between the European Commission and member states, excluding regional and civil society voices (European Committee of the Regions, 2024). This streamlined stakeholder involvement accelerates policy execution but raises questions about how well regional needs are met and whether the best strategies for local development are identified.

Cohesion policy must improve its speed of implementation. However, it is crucial to find a balance between the ponderous, but inclusive bottom-up cohesion policy approach, and the agile, but less democratic RRF approach.

EU vs national

Every EU member state operates its own redistribution mechanisms, which can range from formal fiscal equalisation schemes to project-based approaches akin to co-

hesion policy. So, why should the European level replicate these national structures?

Given that the Single Market encompasses the entire EU, it is logical to address inequality and structural development on a pan-European scale and in a coordinated manner. European competence enables regional connections to bypass member states so they can act as a form of grassroots European integration with broad social participation. A cohesion policy devolved to member states would render such cooperative efforts across borders more challenging, if not impossible.

Beyond economic considerations (see, e.g. Ragnitz, 2018), this is also a matter of democracy and power dynamics. When regional development is exclusively managed by national governments, regions can be entirely at the mercy of their central authorities.

The Single Market is inherently a policy under European governance. Thus, the umbilically linked cohesion policy should operate on the same level playing field to be effective. Delegating regional development to member states changes the relationship between national and regional levels of power, raising not least concerns about how to mitigate democratic deficits.

No strings attached vs conditionality

Regions in “development traps” face numerous challenges. Beyond deficits in production factors like labour and capital, they often suffer from weak institutional frameworks that hinder effective governance and the successful implementation of cohesion policies (European Commission, 2024a).

Moreover, these regions are often found in member states that are overdue for structural reforms in areas such as the labour market, pension systems and taxation. They also need to uphold the rule of law to prevent anti-democratic tendencies. Consequently, there is growing support for linking cohesion funds closer to the European Semester, the far-reaching economic and fiscal policy coordination of the EU. This would create a “cash-for-reforms” approach for cohesion policy similar to that of the RRF.

While there is a consensus on the need for reforms to create an environment conducive to the effective use of cohesion funds (European Commission, 2024a; European Commission, 2024b), the challenge lies in implementing conditionality effectively. Ideally, conditions should be geared to the level of government responsible for the relevant changes, as suggested by connexity theory (Ragnitz, 2018). However, cohesion policy primarily addresses regions, while European Semester conditions are usually di-

rected at national governments, which hold the necessary competencies for systemic reforms such as pension or labour market overhauls. This misalignment only results in indirect pressure on regions, which is neither efficient nor democratic.

For “development trapped” regions, structural reforms at the member state level are the key to progress. However, regions often lack the authority to implement these necessary reforms. Consequently, conditionality can inadvertently make regions hostages to their national government’s shortcomings, hindering access to the funds they need.

Simple vs bulletproof

Cohesion policy currently operates through six distinct funds (Figure 4), each with hundreds of regional programmes. These funds include:

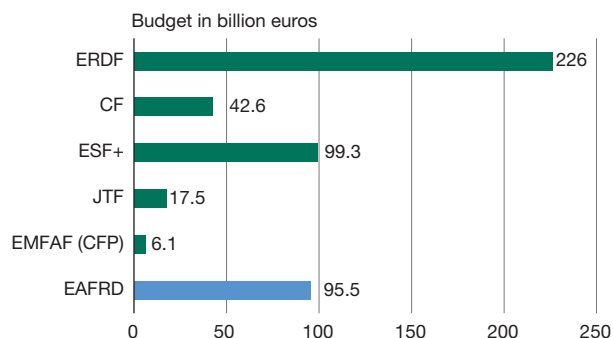
- European Regional Development Fund: investments for competitiveness, innovation, the green transition and European territorial cooperation
- Cohesion Fund: targets environment and transport infrastructure in poorer regions in member states with gross national income per capita below 90% of EU-average
- European Social Fund Plus (ESF+): concentrates on human capital development and social aspects
- Just Transition Fund: supports Green Deal implementation
- European Maritime, Fisheries and Aquaculture Fund (EMFAF): budget for the EU common fisheries policy
- European Agricultural Fund for Rural Development (EAFRD), *managed by DG AGRI*: contributes to regional development in rural areas, part of the common agricultural policy.

The underlying complexity and fragmentation impose extensive burdens on strategic programming and advancement at the EU level.

In contrast, the RRF operates with a single budget and integrated plans set up by member states, simplifying overall governance and enabling easier funding for large-scale projects.

To fulfil the goals of each fund and ensure compliance in delivery, countless administrative regulations are in place.

Figure 4
Overview of the six cohesion funds



Notes: Budget of funds in billion euros for the current MFF period 2021-2027. ERDF: European Regional Development Fund; CF: Cohesion Fund; ESF+: European Social Fund Plus; JTF: Just Transition Fund; EAFRD: European Agricultural Fund for Rural Development.

Source: European Parliamentary Research Service Fact Sheets, own compilation and illustration.

Joint delivery of cohesion policy via the partnership principle creates a system of checks and balances between the European Commission and member states. On top, regulations vary across member states for the same fund, often including national “gold plating” which adds extra regulation.

This complex policy delivery raises concerns about the high administrative burden, limited absorptive capacity and slow processing times, discouraging applicants from pursuing projects. The issue is particularly severe in wealthier regions, where higher national co-financing rates make cohesion funding less attractive.

While the RRF theoretically has fewer compliance rules, in practice, compliance costs remain high due to complex auditing requirements, with the European Court of Auditors responsible for auditing national budgets. This is a common problem across many European policies, where stakeholders frequently complain about excessive, over-complicated, and time-consuming red tape.

Streamlining the setup of cohesion policy is crucial for increasing its effectiveness, impact and speed. Combining funds could simplify planning and administration. While reducing red tape is essential, it must not compromise fraud prevention. This can be achieved by rethinking auditing systems to focus more on ensuring that regional and national fraud prevention measures are robust. Additionally, it is important to ensure that civil servants are not incentivised to maintain red tape for risk aversion reasons.

Leveraging policy synergies

Cohesion policy is – and should be – not the only policy dealing with cohesion (European Commission, 2024a). Virtually every policy touches on the trade-off between efficiency and equity, making cohesion a fundamental aspect of all policy areas. Some policies can support cohesion policy, while others may undermine it. Therefore, leveraging synergies is crucial for promoting a cohesive Europe efficiently.

EU policies

The EU enacts numerous policies annually, all of which, whether regulatory or fiscal in nature, can enhance or diminish cohesion across Europe.

The prime example is the Single Market: regulations designed for it may benefit some regions while adversely affecting others. A good example is the green transition that, with the shift to renewable energy at its core, comes with a substantial overhaul of the economy. Phasing out fossil energy production will eradicate some economic activity, while phasing in renewable generation will create jobs and value added. This transformation actually favours lagging rural regions and is thus improving cohesion (Többen et al., 2023; Schwab, 2023a). By aligning cohesion policy with energy policy, the maximum impact of both can be achieved.

Furthermore, the development of green and digital technologies offers vast potential across Europe. By fostering collaboration among regions with complementary capabilities, new technological advances and thus economic activities can emerge, particularly in lagging regions. This can be beneficial for cohesion (Bachtrögler-Unger et al., 2023; Schwab, 2023b).

To maximise cohesion, it is essential to strategically leverage synergies between cohesion policy and other EU policies. This does not require other policies to share the same goals as cohesion policy but to acknowledge their positive or negative effects on cohesion. Strategic planning is needed and must be based on a rigorous analysis of the heterogeneous effects of policies. This is especially important in a time of narrowing fiscal space.

National policies

Cohesion policy is not the only instrument for structural development in Europe; most member states also implement their own policies on a national scale. However, these national policies are often imperfectly aligned with EU cohesion policy – or vice versa.

Fiscal equalisation schemes also play a crucial role in promoting equity. But these schemes fail to serve as proactive tools for structural development. Instead, they function as compensation mechanisms, akin to a “solidarity tax”.

Improved coordination between national and EU policies, alongside effective use of fiscal equalisation, can significantly enhance structural development and cohesion in Europe. Combining resources can boost financial leverage and ease administrative burdens.

Outlook

The current debate on the future of cohesion policy is effectively a search for redefining its identity amid evolving objectives and increasing pressure for rapid results.

Cohesion policy is relevant for mastering global challenges

At first glance, cohesion policy may seem outdated in a changing world. However, regional development remains an overarching issue crucial to addressing global challenges.

Competitiveness. Intensified global competition demands a robust industrial strategy. Cohesion policy's long-term investments in infrastructure, human capital and innovation are essential for fostering competitiveness across all European regions. In this sense, cohesion policy functions as a long-term industrial policy and promotes economic security.

Green transition. The shift to renewable energy and the broader green transition have varying impacts across regions. A just transition, supported by cohesion policy, is fundamental to achieving Europe's climate neutrality goals by 2050 and preventing a regional backlash against green policies.

Digital transition. Cohesion policy plays a key role in connecting Europe, fostering collaboration, and driving innovation to address major societal challenges. In an enlarged EU, this role becomes even more critical, offering new perspectives and opportunities.

Thus, cohesion policy is essential to helping Europe tackle the grand challenges of our time by fostering economic, social and territorial resilience. It addresses the fears of economic deprivation across Europe, ensuring no one is left behind. Cohesion policy is crucial for addressing existing and emerging regional disparities, ensuring that all regions and people benefit from European policies. Without this, embracing the European project wholeheartedly is at risk, leading to what has been termed the “geography of discontent”.

Future directions for cohesion policy

The future of cohesion policy stands at a pivotal juncture. As the EU faces new policy priorities, an evolving global landscape and the prospect of further enlargement, refining and enhancing it is imperative. Current outcomes indicate that cohesion policy is not yet fully delivering on its promises, highlighting the need for substantial reform. Key areas of focus include its mission, financing, optimal policy design and synergies with other policies.

The ongoing debate on cohesion policy and forthcoming decisions by policymakers, including negotiations surrounding the MFF, will be crucial in shaping the way forward. The principle of cohesion should remain a central tenet of the EU's growth and integration strategy, as it is a prerequisite for mastering the challenges of our time.

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