



The future of EU cohesion: Scenarios and their impacts on regional inequalities

Cost of non-
Europe

STUDY

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Cost of non-Europe

Cohesion policy plays a crucial role in promoting economic, social and territorial cohesion among the EU Member States' regions. Despite efforts to reduce regional inequalities, challenges persist.

This study identifies three main challenges in addressing regional inequalities. First, there is a lack of coordination and coherence between cohesion policy and other policies. Second, positive impacts of cohesion policy are not distributed evenly across regions. Third, the growing number of instruments leads to increased administrative complexity.

A coordinated policy approach could be more effective in tackling regional inequalities. This is explored through four policy scenarios and an assessment of their impacts. Finally, the study investigates the cost of non-Europe, that is, the impact of taking no further action at EU level to reduce regional inequalities.

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Executive summary

Why this study

The study explores four policy scenarios focused on the future approach of the European Union (EU) to cohesion and assesses their impact on regional inequalities. It offers valuable insights to policymakers ahead of the upcoming proposal for the multiannual financial framework (MFF) post-2027.

Key findings

The study argues that cohesion policy does not operate in isolation and examines how other policies affect regional inequalities. It therefore looks beyond cohesion policy and assesses its interaction with policies related to industry, research and innovation, competitiveness, climate change and social rights. The study identifies existing challenges and gaps in EU cohesion policy and other EU policies that further deepen regional inequalities. First, there is a lack of coordination and synergies between cohesion policy and other EU policies. Second, positive impacts of cohesion policy are unevenly distributed, leading to increased inequalities within countries. Third, the growing number of tools and competing governance models only adds to administrative complexity.

All policy scenarios would affect regional inequalities

As mentioned earlier, the study presents four scenarios for the future of cohesion in the EU. "Scenario 0, labelled as the status quo, involves no policy change. Scenario 1 (the continuity scenario) reflects the current policy setting where cohesion policy and the other policies operate alongside each other, but in silos, without optimal coordination and coherence. It continues developing as expected, based on current political discussions, potentially leading to budget pressures due to a shift in funding priorities. In these two scenarios, regional inequalities are likely to persist, as some regions may struggle to benefit from the potential of the digital and green transitions, risking further division. Scenario 2 (the integrated approach scenario), envisions a merging of various cohesion funds and improved coordination between EU and national policies. All sectoral policies would contribute to reducing regional inequalities. Place-based policies could strengthen the single market and help regions to capitalise on their unique strengths, ultimately reducing regional inequalities. Finally, Scenario 3 (the sectoral approach scenario) adopts a strong sectoral perspective, with each EU policy focused on increasing the efficiency and effectiveness of its outcomes. Policies with the highest growth potential would receive priority, leading to stronger competition for funding among regions. If policies in this scenario are not carefully designed, they could deepen divisions across the EU and increase regional inequalities.

Cost of non-Europe in addressing regional inequalities

The cost of non-Europe in addressing regional inequalities refers to the negative impacts of not taking additional action at the EU level to enhance cohesion or failing to address potential impacts on regions as a consequence of pursuing sectoral policies (see Table 1). A lack of adequate EU action could result in negative economic, environmental, social and territorial impacts.

Table 1 – Cost of non-Europe

Scenario	Cost of non-Europe in reducing regional inequalities
Scenario 0 Status quo	Regional inequalities are likely to persist due to a lack of territorial focus of policies other than cohesion policy.
Scenario 1 Continuity	Territorial and social fragmentation may increase in regions that are left behind, stagnating or losing potential.
Scenario 2 Integrated approach	Balancing cohesion and competitiveness objectives may result in lower performance and competitiveness for stronger players, at least in the short run.
Scenario 3 Sectoral approach	Social and regional inequalities may increase within and across Member States. Uneven development may weaken EU cohesion.

Source: EPRS.

Establishing synergies among policies to achieve cohesion objectives may help increase effectiveness in addressing regional inequalities. Aligning the objectives of cohesion and enhancing a place-based approach through assessing territorial impacts of policies would promote further cohesion and EU integration. If the EU wants to continue pursuing its vision of an economy that works for people and leaves nobody behind, putting cohesion at its centre could drive this process.

How the EU could act to reduce regional inequalities

In order to promote cohesion and minimise potential negative effects on regions, future EU policy actions will need to be carefully designed and avoid to further deepen the EU regional divide. An assessment of the policy scenarios reveals that the effectiveness of policies aimed at addressing regional inequalities will depend on how cohesion policy interacts with other policies. Synergies can be pursued between EU policies, as well as between cohesion efforts at the EU level and the national level. Including territorial impact assessments as an integral part of the policymaking process could help to better identify and address regional inequalities. Furthermore, relying on GDP as the only indicator risks limiting the assessment of policy impact. Additional indicators could be used to measure progress and impacts of cohesion policy, as well as to shape policy design and allocation mechanisms. Finally, given the plethora of funds and tools within the cohesion policy framework, simplifying and harmonising available instruments could increase absorption rates by reducing administrative complexity.

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1. Introduction

1.1. Inequalities in the EU

Combined, the total GDP of the EU Member States is around €17 trillion, equivalent to an average of €38 000 per capita.¹ This amount grew by an annual average of 1.2 % between 2005 and 2023, a period marked by significant volatility in the economic performance of Member States.

These aggregated figures can only partially capture the significant economic differences that exist between and within countries. Nearly one-third of EU citizens live in regions with a GDP per capita below 75 % of the EU average.² While some territories have experienced positive growth, others have struggled to recover from economic shocks, such as the 2008 financial crisis and the COVID-19 pandemic, and are currently facing challenges such as depopulation and brain drain. Some regions, including those in wealthier Member States, are experiencing stagnation or are even losing performance and are finding themselves in a development trap (i.e. falling behind EU and national average growth rates as well as their own past performance).³ Within countries, these circumstances have led to greater regional polarisation.⁴ Peripheral and rural territories, and areas with persistent structural challenges (such as high unemployment, declining industries and low levels of education), continue to lag behind economically.

Disparities persist, and millions of individuals are still facing poverty and social exclusion risks. More specifically, over one in five people in the EU is currently at risk of poverty, facing material and social deprivation, or living in a household with low work intensity.⁵ On average, sub-groups of the population more likely to be at risk than others are women, young adults, people with a low level of educational attainment and unemployed people.

The green and digital transitions that the EU strives to achieve have asymmetric territorial impacts across EU regions. This challenge requires the use of appropriate tools when designing transition policies to avoid significant negative effects such as a deepening of social and regional divides.⁶ The green transition brings benefits as it aims to reduce the risks of climate change and their impact on people and the economy, as well as improve the ability to address these challenges. It also brings additional benefits, such as the improvement of environmental quality, better health, social cohesion and energy security. However, green transition policies do not affect all regions evenly, as some are still dependent on the extraction or use of fossil fuels that should eventually be phased out in the future to ensure a net-zero emissions economy. Additionally, not all regions have the means to invest in low-carbon technologies or are competitive enough to attract such investment. In this context, (the degree of) climate vulnerability risks increasing regional and social disparities, if not addressed and accompanied by structural changes.⁷

¹ European Commission, [National accounts and GDP](#), Eurostat, 2023.

² European Commission, [Ninth report on economic, social and territorial cohesion](#), 2024.

³ As explained in the [Commission's Ninth cohesion report](#), this trend is oftentimes the result of economically strong capital regions leaving other regions behind, sectorial decline, or slow growth.

⁴ Ibid.

⁵ European Commission, [People at risk of poverty or social exclusion in 2023](#), Eurostat, 2023.

⁶ See, for example, Francesco Vona, 'Managing the distributional effects of climate policies: A narrow path to a just transition', *Ecological Economics*, Vol. 205, 2023, and Roberta Capello and Andrea Caragliu, 'Digital transition in a turbulent world: European regional growth opportunities in 17 years' time', *Economics of Innovation and New Technology*, pp. 1–19, 2024.

⁷ European Commission, [Ninth report on economic, social and territorial cohesion](#), 2024.

The digital transition offers numerous opportunities for citizens and businesses, including those in remote and rural areas. It creates new jobs, increases productivity and ensures rapid access to public services. However, despite ongoing efforts to bridge the digital divide, citizens are not equally prepared to embrace new technologies. In fact, almost half of the EU population lacks basic digital skills, and a significant portion still faces barriers to accessing the internet.⁸ Despite improvements in digital accessibility, significant disparities in broadband connectivity persist.⁹ While digital policies play a crucial role in addressing these disparities, they can also pose a risk to cohesion if they are not carefully designed and implemented. The introduction of ground-breaking technologies could have strong impacts on regions, particularly those with a substantial number of labour-intensive industries, limited access to skilled workers and a lack of critical infrastructure that risk being left behind.¹⁰

1.2. EU policy context

EU cohesion policy¹¹ strives to increase growth and reduce social and economic inequalities by creating more opportunities across all territories and social groups. It is aligned with the goals and objectives of the EU green and digital transitions. Cohesion policy, along with its funding, is at the core of the EU project, accounting for almost a third of the total EU budget.¹² This budget doubled over the 1994-1999 programming period, stabilised during the 2006-2013 and 2014-2020 programming periods,¹³ but decreased for the 2021-2027 programming period,¹⁴ a fact that has been regretted by the European Parliament.¹⁵ The initial allocation of EU funds to cohesion policy for 2021-2027 amounted to €392 billion, to be delivered through specific funds: the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund Plus (ESF+), and the Just Transition Fund (JTF).¹⁶

Promoting regional development and tackling regional inequalities involves more than just the distribution effect of cohesion funds. Regional development depends on a complex interplay of various factors, including economic, social and environmental ones. Regional needs vary based on the regions' socio-economic and demographic characteristics, leading to unique challenges for each region. Cohesion policy should empower regions to address the challenges associated with the industrial, technological, digital, social and demographic transitions.¹⁷

⁸ European Commission website: [Digital Skills](#).

⁹ European Commission, [Ninth report on economic, social and territorial cohesion](#), 2024.

¹⁰ A. Maucorps, 'The Impact of the Green and Digital Transition on Regional Cohesion in Europe', *Intereconomics*, 2023.

¹¹ Cohesion policy is considered the same as regional policy: see the European Commission website on [What is regional policy](#).

¹² European Commission website: [Cohesion Policy](#).

¹³ J. Bachtler and C. Mendez, 'Chapter 10 Cohesion Policy - Doing more with less', *Policy-making in the European Union*, 8th Edition, Oxford, The new European Union Series, page 232-252, 2020.

¹⁴ John Bachtler and Carlos Mendez, [Cohesion and the EU Budget: is conditionality undermining solidarity?](#), Cambridge University Press, 2020.

¹⁵ European Parliament resolution of 14 March 2024 on cohesion policy 2014-2020 - implementation and outcomes in the Member States ([2023/2121\(INI\)](#)).

¹⁶ European Commission website: [Available budget of Cohesion Policy 2021-2027](#).

¹⁷ European Parliament resolution of 12 December 2023 on reshaping the future framework of EU structural funds to support regions particularly affected by challenges related to the automotive, green and digital transitions ([2023/2061\(INI\)](#)).

European Parliament

The Parliament has emphasised that cohesion policy investment has effectively supported the goal of achieving economic, social and territorial cohesion in the past, resulting in positive impacts on regions.¹⁸ It has also stressed that the policy should remain the EU's primary investment instrument for reducing disparities and stimulating sustainable growth at the regional and local levels.

The European Parliament¹⁹ has highlighted the increasing importance of tackling regional disparities as a response to various challenges in order to avoid the development trap in regions. EU cohesion policy should provide regions with the necessary means to face the challenges, particularly in relation to the green and digital transitions, the urban-rural digital divide, climate change and demographic shifts such as an ageing society, declining population and shrinking workforce. Infrastructure and access to (public) services are pivotal for some regions, especially remote and rural ones. The quality of institutions and governments, together with their administrative capacity, plays a vital role in developing and implementing targeted policies and allocating funds.

Parliament argues for a people-centred approach to reduce intraregional inequalities and calls for including the industrial transition within the EU cohesion policy beyond 2027,²⁰ as well as tackling the 'geography of discontent'. Parliament has called on the European Commission and Member States to do more to foster cohesion through targeted spending that provides flexible solutions tailored to the specific needs of each region, as well as through efforts focused on improving cross-border cooperation.²¹ According to a study, improving cross-border cooperation has the potential to generate up to €120 billion per year, while also decreasing legal and administrative barriers that impede such cooperation.²²

As a shift from shared to a more centralised management of cohesion funds can be observed,²³ Parliament has opposed a renationalisation of cohesion policy²⁴ and called for continuing with shared management for the 2021–2027 period. To counteract the shift towards centralisation through monitoring, Parliament has proposed²⁵ to strengthen the 'do no harm to cohesion policy'²⁶ principle within the EU Semester. The functioning of the Recovery and Resilience Facility (RRF) has an impact

¹⁸ European Parliament resolution of 14 March 2024 on cohesion policy 2014–2020 – implementation and outcomes in the Member States ([2023/2121\(INI\)](#)).

¹⁹ European Parliament resolution of 15 September 2022 on economic, social and territorial cohesion in the EU: the 8th Cohesion Report ([2022/2032\(INI\)](#)).

²⁰ European Parliament resolution of 12 December 2023 on reshaping the future framework of EU structural funds to support regions particularly affected by challenges related to the automotive, green and digital transitions ([2023/2061\(INI\)](#)).

²¹ European Parliament resolution of 14 September 2023 with recommendations to the Commission on amending the proposed mechanism to resolve legal and administrative obstacles in a cross-border context ([2022/2194\(INL\)](#)). Furthermore, see the European Parliament resolution of 14 March 2024 on cohesion policy 2014–2020 – implementation and outcomes in the Member States ([2023/2121\(INI\)](#)).

²² L. Jancova et al., [Mechanism to resolve legal and administrative obstacles in cross-border context](#), EPRS, European Parliament, May 2023.

²³ J. Bachtler and C. Mendez, 'Chapter 10 Cohesion Policy – Doing more with less', *Policy-making in the European Union*, 8th Edition, Oxford, The new European Union Series, 2020.

²⁴ European Parliament resolution of 14 March 2024 on cohesion policy 2014–2020 – implementation and outcomes in the Member States ([2023/2121\(INI\)](#)).

²⁵ European Parliament resolution of 14 March 2024 on cohesion policy 2014–2020 – implementation and outcomes in the Member States ([2023/2121\(INI\)](#)).

²⁶ The 'do no harm to cohesion policy' principle was introduced by the 8th Cohesion report, which stated that 'no action should hamper the convergence process or contribute to regional disparities'. Parliament insists that it should be further developed and integrated into policymaking.

on reforms in Member States and on the interaction with other EU funds,²⁷ particularly cohesion policy.

European Commission

In 2023,²⁸ a European Commission report provided a comprehensive overview of regional trends, using GDP-based figures, as well as data on labour productivity, labour market performance and research and innovation. It used the European regional competitiveness index (ERI) and focused on the urban-rural divide, the demographic situation, access to basic services (water) and the green transition. The report demonstrates the alignment of the 2021–2027 cohesion policy with the European Semester. It underscores the divergent situations between Member States and regions within Member States, with some regions caught in the development trap or facing risks. The report finds that the pace of convergence has declined since 2008 and that disparities within Member States have increased over time, but at a slower pace than among them. Significant disparities can be observed, particularly related to the demographic situation, the unemployment rate, the educational level and investment in research and development (R&D). The Commission's mid-term evaluation of the RRF²⁹ in February 2024 revealed the lack of a territorial dimension in the RRF,³⁰ which could contribute to the risk of increasing disparities within Member States and threaten the socio-economic balance.

The Commission's Ninth report on economic, social and territorial cohesion, published in 2024, assesses the state of cohesion in the EU.³¹ The report highlights significant achievements of cohesion policy in terms of fostering upward economic and social convergence in the EU. Twenty years after the 2004 enlargement, the report highlights positive results, particularly in central and eastern Europe, with an increase of GDP per capita from 52 % in 2004 to nearly 80 % in 2021, supported by a nearly €1 trillion cohesion policy investment during this period. On the other hand, the report points out that the benefits have not been evenly distributed among Member States and regions. For instance, other parts of the EU experienced slow growth and less convergence during this period, with 1 % GDP growth in north-western regions and 0.1 % in southern regions. GDP declined for 60 million people in 38 regions.

European Committee of the Regions and European Economic and Social Committee

The European Committee of the Region (CoR) presents three scenarios in its 2024 report addressing the cost of no-cohesion for the future single market.³² It identifies not only economic but also non-economic spillover effects. Cohesion policy, the CoR argues, should be available to all regions, regardless of whether they are located in richer or poorer Member States.³³ This stance is shared by

²⁷ European Court of Auditors, [EU financing through cohesion policy and the Recovery and Resilience Facility: A comparative analysis](#), 2023. Additionally, see European Commission, [External supporting study – Case study on the functioning of the RRF and other EU funds](#), 2023.

²⁸ European Commission staff working document on Regional Trends for Growth and Convergence in the European Union, [SWD\(2023\) 173](#).

²⁹ European Commission, [Mid-term evaluation of the Recovery and Resilience Facility \(RRF\)](#), website, February 2024. See also European Commission, [Recovery and Resilience Facility Annual Report 2024](#), website, October 2024.

³⁰ European Commission, [Case study on the functioning of the RRF and other EU funds](#), February 2024.

³¹ European Commission, [Ninth report on economic, social and territorial cohesion](#), 2024.

³² European Committee of the Regions study, [Cohesion Policy and the Single Market: the cost of non-cohesion](#), 2024.

³³ European Committee of the Regions joint call, [A renewed Cohesion Policy post 2027 that leaves no one behind](#), 2024.

Parliament³⁴ and the Council,³⁵ and is also addressed in the Letta report.³⁶ In its opinion on Do no harm to cohesion,³⁷ the CoR emphasises that attention should be paid to the design and implementation of EU policies, as some measures enhance cohesion policies, while others, can negatively impact the regional level (the 'do no harm to cohesion' principle).

Both the CoR³⁸ and the EESC³⁹ emphasise the need to involve regional and local stakeholders in the design and implementation of cohesion policy to enable convergence. They point to the competition between the cohesion funds and the RRF. The CoR furthermore notes that cohesion funds have a lower absorption rate, as Member States tend to use the less administratively rigid RRF more often.

³⁴ European Parliament resolution of 14 March 2024 on cohesion policy 2014–2020 – implementation and outcomes in the Member States ([2023/2121\(INI\)](#)).

³⁵ European Council, [Council conclusions of 30 November 2023](#) on the future of cohesion policy, 2023.

³⁶ E. Letta report, [Much more than a market](#), April 2024.

³⁷ European Committee of the Regions opinion factsheet, [Do no harm to cohesion – A cross-cutting principle contributing towards cohesion as an overall objective and value of the EU](#), 2023.

³⁸ European Committee of the Regions draft opinion, [Mid-term review of the post-COVID European recovery plan \(Recovery and Resilience Facility\)](#), July 2024.

³⁹ European Economic and Social Committee resolution, [No one should be left behind! For an inclusive and participatory cohesion policy in support of social, economic and territorial cohesion](#), July 2024.

2. Challenges in addressing regional inequalities

The Commission's (ninth) cohesion report notes an overall positive effect for the EU as a whole, along with a positive return on investment of cohesion policy to the single market.⁴⁰ However, other trends point to prolonged economic stagnation in southern EU regions, a growing divide between urban and rural regions⁴¹ and persisting income inequality within regions.⁴²

This chapter aims to identify the key challenges that face cohesion policy and need to be addressed in order to ensure it is future-proof. In response to the unprecedented challenges currently being experienced by the EU, new strategic priorities are emerging, such as a renewed focus on competitiveness and strategic autonomy.

A lack of policy coherence and a territorial approach

Cohesion policy does not operate in a vacuum. In fact, all EU and national policies have an impact on cohesion. While some policies might enhance cohesion, others might undermine it.⁴³ The annexed study analyses how other policy spheres, including industrial policy, research and innovation, competitiveness, climate policy and social policy, affect inequalities. Industrial policy tends to support more developed regions with strong economic players and could therefore pose risks to cohesion. This highlights the need for a more inclusive approach to ensure all regions can benefit, for example, through place-based or territorially differentiated approaches. In a similar vein, EU research and innovation policy, while remaining a key driver for prosperity, often benefits regions with established infrastructure and skilled personnel, potentially widening the innovation gap between territories. The EU's smart specialisation strategy builds on local assets and is tailored to a local context, bringing at least a limited regional dimension and links to cohesion policy.⁴⁴ There is also the risk for EU competitiveness policies, if not carefully designed and implemented, to disproportionately benefit developed regions, resulting in polarisation, where high-value industries concentrate in a few regions, leaving others behind. Adapting green policies to the specific characteristics and needs of EU territories would be essential in reducing asymmetric impacts of climate change, as regional impacts of climate adaptation and decarbonisation may lead to increased regional inequalities if not managed inclusively. Social policies, such as those included in the European Pillar of Social Rights, focus on ensuring a fair and just transition for all EU citizens, but regional inequalities persist, especially in access to education, employment and social services. This requires a coordinated approach to addressing these inequalities.

National policies have an impact on regional cohesion too. As disparities are more prevalent within regions than between them,⁴⁵ the need for synergies and better strategic alignment becomes crucial in addressing inequalities. Oftentimes, policies at the EU- and the national level lack synergies that could enhance their collective impact. It is a shared responsibility of EU, national and local players to transform lagging regions into places of opportunities,⁴⁶ in line with the freedom to stay,⁴⁷ as outlined in the Letta report.

⁴⁰ European Commission, [Ninth report on economic, social and territorial cohesion](#), 2024.

⁴¹ M. Mascherini et al, [Bridging the rural-urban divide: Addressing inequalities and empowering communities](#), Eurofound, 2023.

⁴² N. Redeker, '[Fixing Cohesion – How to Refocus Regional Policies in the EU](#)', Jacques Delors Centre, June 2024.

⁴³ T. Schwab, '[Quo vadis, Cohesion Policy? European regional development at a crossroads](#)', *Intereconomics*, June 2024.

⁴⁴ Please, see the Annex to this study.

⁴⁵ N. Redeker, '[Fixing Cohesion – How to Refocus Regional Policies in the EU](#)', Jacques Delors Centre, June 2024.

⁴⁶ S. Balazs, [The future of EU cohesion policy: The emerging debate](#), EPRS, 2023.

⁴⁷ E. Letta report, [Much more than a market](#), April 2024.

Positive impacts are not evenly distributed and often depend on macro-national conditions

While cohesion policy has a positive EU-wide impact on growth and employment, its benefits are not evenly distributed. Research on income distribution shows that it is mostly intra-regional inequality, rather than inter-regional inequality (targeted by cohesion policy), that drives overall inequality across the EU.⁴⁸ The allocation of funding at the level of NUTS 2 regions might not be efficient: as these regions are larger and economically very diverse, this funding often risks ending up in affluent parts within poorer regions.

The uneven distribution of resources within NUTS 2 regions leads to a situation of 'accidental winners': NUTS 3 regions that, while ineligible based on their GDP threshold, still benefit from funds because of the eligibility of the NUTS 2 regions they belong to. Consequently, eligible NUTS 3 regions face increased disparities compared to ineligible ones. Furthermore, evaluations of the impact at the NUTS 3 level are scarce due to a focus on average effects⁴⁹ and a lack of data. However, the literature suggests that allocating funds at the NUTS 2 level exacerbates inequalities at the NUTS 3 level and that the distribution of money fails to target the most vulnerable regions.⁵⁰

A study analysing the distribution of the economic impact of cohesion policy across different countries points to the role of the national element of cohesion policy implementation. It analyses the impact of heterogeneous national institutional and implementation conditions on policy outcomes. The analysis captures the net effects of cohesion policy impacts on country-specific performance in regional growth and employment. Results show that, rather than by the amount of funding, success is determined by national models of policy design and implementation, as well as macro-level conditions.⁵¹ Another case study analysing the impact of cohesion policy funding on regional labour markets also highlights how the presence (or lack thereof) of a national coordination strategy, alongside the quality of regional institutions, determines whether the labour market can resist and recover from a shock.⁵²

Several studies examine the impact of cohesion policy on convergence across EU regions. The outcomes of these studies depend on the choice of indicators for policy evaluation and on whether

Common classification of territorial units for statistics (NUTS)

To better design regional policies and collect statistics on its territories, the EU has established a common classification of territorial units, known as NUTS.

Each Member State is subdivided into three levels, based on the size of the population:

NUTS 1 (between 3 and 7 million inhabitants, e.g. the regions in Belgium);

NUTS 2 (between 800 000 and 3 million inhabitants, e.g. the provinces in Belgium);

NUTS 3 (between 150 000 and 800 000 people, e.g. the arrondissements in Belgium).

The second and third levels are subdivisions of the first and second levels.

Source: European Commission website, [Principles - NUTS - Nomenclature of territorial units for statistics](#).

⁴⁸ V. Lang et al., [Place-based policies and inequality within regions](#), March 2023.

⁴⁹ L. Védérine and J. Le Gallo, 'Does EU Cohesion Policy affect territorial inequalities and regional development?', Chapter 13 of [EU Cohesion Policy and Spatial Governance - Territorial, Social and Economic Challenges](#), Elgar Studies in Planning Theory, Policy and Practice, Edward Elgar Publishing, 2021.

⁵⁰ A.M. López-Villuendas and Cristina del Campo, '[The impact of European regional cohesion policy on NUTS 3 disparities](#)', *The Annals of Regional Science*, 2024.

⁵¹ Riccardo Crescenzi et al, '[One or many Cohesion Policies of the EU?](#)', *Regional Studies*, 2020.

⁵² Roberta Arbolino, '[Can the EU funds promote regional resilience at time of COVID-19?](#)' Insights from the Great Recession, *Journal of Policy Modeling*, January-February 2021.

the impacts are evaluated within a wider social and institutional context. For example, one study analysed the impact of ESIF funding (with a focus on convergence) and found that it did not enhance income per capita growth in funded regions compared to non-funded regions. The results pointed to negative spill-over effects linked to gaps in institutional, structural and technological conditions in the examined regions.⁵³ Another study looked at a broader range of well-being indicators to evaluate the impacts of cohesion policy. It concluded that assessing impacts solely based on GDP obscures the positive effects of the policy and recommends adopting a multi-dimensional approach to better understand the impact of the policy.⁵⁴

As instruments increase, so does administrative complexity

Cohesion policy has evolved and widened its focus over time. Initially aimed at helping poorer regions catch up and achieve economic convergence, it now encompasses a wide range of EU objectives. These include supporting the green and digital transitions or delivering policies such as those related to the single market or to research and innovation. The growing number of policy objectives that cohesion policy contributes to have led to a proliferation of financing instruments, each with its own eligibility criteria and implementation rules. As a result, local authorities and beneficiaries face increased administrative complexity, which affects both efficiency and coordination between different projects. Additionally, the parallel running of programmes under both cohesion policy and the Recovery and Resilience Fund presents challenges for beneficiaries. These challenges stem from differing implementation rules, timelines and 'gold-plating' practices such as overlapping audits by both EU and national authorities in some countries.⁵⁵ Last but not least,

several factors such as late adoption of EU legislation, limited local administrative capacity and inefficient institutional structures have led to a low absorption capacity. Low absorption rates diminish the relevance and effectiveness of the programmes.⁵⁶ The lack of or low quality of local and regional institutional capacity and governance poses a significant obstacle to regional development in many EU regions, resulting in inefficient investments and a lower absorption rate.^{57 58} Increasing accountability and trust in institutions, as well as enhancing the capacity of governments to shape

Recovery and Resilience Facility and cohesion policy

Both instruments share the EU's objectives of enhancing the twin transition and the cohesion and resilience of the EU. The main difference lies in the way funding is sourced: while cohesion policy is financed from own resources and country contributions, the RRF is financed through borrowing on the capital markets.

The RRF was created to address the impact of the COVID-19 crisis with the aim of making the EU more sustainable and resilient to upcoming challenges. Member States prepare national recovery and resilience plans, addressing challenges identified in the country-specific recommendations of the European Semester. The RRF's implementation is therefore closely linked to national reforms.

Source: [European Commission](#), [European Court of Auditors](#), [European Commission](#).

⁵³ Breidenbach, et al., 2018.

⁵⁴ E. Calegari et al., '[The heterogeneous effect of European Union Cohesion Policy on regional well-being](#)', *European Urban and Regional Studies*, 2023.

⁵⁵ D. Wojtowicz, '[Streamlining EU Cohesion Funds: Addressing Administrative Burdens and Redundancy](#)', Policy Department for Structural and Cohesion Policies, European Parliament, 2024.

⁵⁶ A. Ciffolilli, '[Absorption rates of cohesion policy funds](#)', Policy Department for Structural and Cohesion Policy, European Parliament, May 2024.

⁵⁷ K. Böhme, '[Cohesion Policy needs to boost high-quality governance](#)', Spatial Foresight think-tank, April 2024.

⁵⁸ A. Ciffolilli, '[Absorption rates of cohesion policy funds](#)', Policy Department for Structural and Cohesion Policy, European Parliament, May 2024.

regional growth policies,⁵⁹ are potential ways to overcome these shortcomings. The need to increase the administrative capacity of implementing authorities also applies to candidate countries.⁶⁰

Upcoming challenges: security and enlargement

The role of security and defence has been increasing and will be present in discussions on the future shape of cohesion policy, potentially shifting the thematic focus of the policy. The future enlargement of the EU would also be a crucial moment for the future of cohesion policy. While preliminary discussions focus mostly on the budgetary impact, preliminary estimates show that enlargement itself would not pose a budgetary risk given the design of the current allocation mechanism. This design avoids redistribution shocks and limits access to funds for new members. However, new countries joining would have an impact on the distribution and eligibility for funding for current members.⁶¹ The impact would largely depend on the nature of enlargement; a phased enlargement starting with Western Balkan countries would differ in terms of impact and focus compared to the possible accession of Ukraine.⁶²

⁵⁹ 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.

⁶⁰ European Commission communication on pre-enlargement reforms and policy reviews [COM\(2024\) 146](#), March 2024.

⁶¹ J.N. Ferrer, '[Furthering cohesion in an enlarged Europe Impacts of enlargement on regional Cohesion Policy allocations](#)', Conference of Peripheral Maritime Regions (CPMR) study, April 2024.

⁶² See the Annex to this study.

3. Policy scenarios and their impacts

3.1. Policy scenarios

This study presents four policy scenarios, starting with Scenario 0 (status quo), which involves no policy change and serves as a reference point for comparison with other scenarios. This scenario indicates that despite changing political and economic circumstances, cohesion policy, its budget, allocation and interaction with other policies will remain unchanged over time.

Scenario 1 (continuity scenario) depicts a situation where there are no significant changes to the policy framework, but adaptations are likely based on the political and economic developments. This includes possible adjustments to the budget and policy priorities, with a focus on increasing competitiveness and growth). Multi-level governance and shared management are likely to remain in place under this scenario.

Scenario 2 (integrated approach scenario) is based on the assumption of stronger policy coordination and integration of EU policies. In practice, this would mean that all policies would be assessed against their impacts on reducing regional inequalities. The focus will be on maximising impacts through multi-fund programmes or through merging funds and strategically allocating funds to regions with more pressing needs. Additionally, in this case, multi-level governance and shared management are likely to remain in place.

Scenario 3 (sectoral approach scenario) represents a sectoral approach to policies where policies compete for funding. The focus would shift to enhancing competitiveness, economic growth and employment, potentially side-lining cohesion and regional development objectives. A shift to a centrally managed approach is assumed in this scenario.

Table 2 provides an overview of the main aspects of the selected policy scenarios. The scenarios differ in the following aspects: the level of interaction between cohesion and other policies, the management of funds, and the way in which funding is allocated.

Table 2 – Key aspects of the policy scenarios

Key aspects	Policy Scenario 0 Status quo	Policy Scenario 1 Continuity	Policy Scenario 2 Integrated approach	Policy Scenario 3 Sectoral approach
Interaction of cohesion policy with other policies	No change	CP and other policies operate in silos	CP and other policies interact and have integrated policy objectives	Change of CP/transformation
Interaction between EU policies vs national & local cohesion policies	EU policy seen as a supplement to national policy	A lack of alignment between national and EU policies	Increased coordination between EU and national policies	National policies play a key role
Scenario focus/rationale	Cohesion policy contributes to a	Delivery of EU policy objectives but policies pursued and	Increase policy efficiency through better coordination and	Increase competitiveness, growth and strengthen

Key aspects	Policy Scenario 0 Status quo	Policy Scenario 1 Continuity	Policy Scenario 2 Integrated approach	Policy Scenario 3 Sectoral approach
	wide range of EU objectives	assessed separately	assessment of impact on regional inequalities	strengthen-the performance based approach
Management	Shared management	Shared management	Both shared management and direct management	Centralised; focus on performance and efficiency
Funding allocation and eligibility	Eligibility threshold: regions below 75 % of the EU average GDP per capita	Eligibility threshold: regions below 75 % of the EU average GDP per capita	Eligibility: indicators beyond GDP per capita	Eligibility threshold: regions below 75% of the EU average GDP per capita
Role of regions in policy implementation	Multi-governance regime maintained	Multi-governance regime maintained	Multi-governance regime with an enhanced role of regions	Lesser role of regions, stronger role of the national administrations

Source: EPRS analysis based on the Annex.

3.2. Policy scenario impacts

The estimated impacts of the different policy scenarios are presented in Table 3. Each scenario is assessed against a set of economic, environmental, social and territorial impacts, including the extent to which they reduce regional inequalities.

Under Scenario 0 (status quo), we anticipate that subnational inequalities will continue to exist, there will be a risk of increasing regional inequalities, and benefits for low-income households will remain uneven. Scenario 1 (continuity scenario), which focuses on promoting competitiveness and innovation objectives, will likely benefit more advanced regions and enhance their global position.

As it stands inequalities are likely to persist and may be exacerbated in vulnerable regions as well as in regions that are not ready to reap the benefits of the green and digital transitions. This could disproportionately benefit more developed regions while the gap between them and regions unable to keep up with the transition is at risk of widening.

The shift towards a place-based approach and the enhancement of the territorial dimension under Scenario 2 (integrated approach) have the potential to promote regional resilience and inclusive growth across the EU. Taking territorial impacts into consideration in policymaking could lead to a reduction in disparities and more balanced development. This might come at the cost of relatively lower competitiveness in the short run.

Under Scenario 3 (sectoral approach), the EU might increase its competitiveness and global presence. However, this might happen at the cost of territorial cohesion. The scope of cohesion policy will be limited to the most needy regions, and regions in development traps will continue to fall behind.

Table 3 – Expected impacts of the selected policy scenarios: Qualitative evaluation

	Policy Scenario 0 Status quo	Policy Scenario 1 Continuity	Policy Scenario 2 Integrated approach	Policy Scenario 3 Sectoral approach
Economic impacts	Convergence between Member States but sub-national inequalities persists	Advanced regions reap benefits and their global position is enhanced Risks of increased regional inequalities and development traps	Place-based approaches may strengthen the single market, competitiveness and economic dynamics, while also enabling regions to capitalise on their strengths Regional disparities could be reduced	The growth and global presence of the EU may improve, but it may come at the expense of territorial cohesion Widening economic disparities across EU regions
Environmental impacts	Climate change risks increasing regional inequalities, depending on regions' preparedness to adapt and transform	Promotes further sustainability and resilience across the EU Impacts on regional inequalities may be asymmetric	More sustainable territories, with improved ecosystem services Reduced regional disparities	Reduced progress on environmental sustainability Risk of natural degradation, loss of biodiversity and decreased circular economy efforts
Social impacts	Social convergence has progressed, but benefits of policies are uneven, with low income households benefitting the least	May reduce interpersonal and regional inequalities Cohesion policy may not be enough to tackle deeper social disparities	Less social inequalities, more inclusion, social care, education and skills Promotion of the freedom to stay	Policy fragmentation may stunt social development Social disparities may increase
Territorial impacts	Uneven capacity of regions to reap the benefits of the green and digital transitions: risk of increasing social disparities in vulnerable regions	Potential benefits for developed and transition regions, in particular urban centres, places with research centres and innovation hubs	Enhanced territorial integration Balance between economic, social and territorial development	More developed and specialised regions may be in an advanced position Less competitive territories may be challenged and risk falling behind
Extent to which regional inequalities are addressed	Regional inequalities are likely to persist	Regional inequalities may persist Territorial and social fragmentation may	More balanced development, with fewer regions being left behind	Social and regional inequalities may increase, within

	Policy Scenario 0 Status quo	Policy Scenario 1 Continuity	Policy Scenario 2 Integrated approach	Policy Scenario 3 Sectoral approach
		increase, with regions left behind stagnating or losing potential	Risk of slowing growth and competitiveness	and across Member States Uneven developments may weaken EU cohesion

Source: EPRS based on the Annex and [European Commission](#) data, 2024.

Each policy scenario presents trade-offs as it is difficult to achieve all objectives simultaneously, such as increasing growth and competitiveness while decreasing inequalities. Depending on the chosen key objective, different scenarios will yield different outcomes. Policy Scenario 2 seems to be more effective in tackling regional inequalities.

4. Cost of non-Europe and ways to reduce regional inequalities

4.1. Cost of non-Europe in reducing regional inequalities

Cost of non-Europe (CoNE) reports prepared by the European Added Value Unit of the European Parliamentary Research Service examine the possibilities for gains and/or the realisation of a public common good through action at the EU level. This study builds on this concept as well. The concept of the 'cost of non-Europe' is underpinned by European added value, which refers to the long-term additional benefit of the EU acting together compared to Member States acting on their own. In this context, the cost of non-Europe has been identified as not acting to address regional inequalities (status quo) or not addressing territorial impacts when pursuing other policy objectives (sectoral approach).

The cost of non-Europe could therefore be expressed in terms of missed opportunities and negative impacts resulting from a lack of coordination in policy objectives and failure to address potential adverse impacts on regional inequalities. The cost of not acting in an integrated manner can be seen in limited effectiveness in reducing inequalities, social and environmental costs, and the inability to make EU regions resilient and prepared for future challenges. Ignoring economic and social disparities across EU regions may weaken EU cohesion, ultimately posing a threat to EU integration and solidarity.

The cost of non-Europe in reducing regional inequalities has been identified in terms of negative economic, environmental, social and territorial impacts. If the EU continues to act without improving its actions (Scenario 0 – status quo), there is a risk that the uneven capacity of regions to react to transformative events, such as the green and digital transitions, will increase inequalities. The current trend of increasing inequalities within countries and funding not reaching low-income households will likely continue. The lack of alignment between policies to contribute to cohesion, including at the national level (Scenario 2 – integrated approach), might increase territorial and social fragmentation, with regions stagnating. Aligning cohesion efforts among EU and national policies (Scenario 2 – integrated approach) would lead to more balanced development, with fewer regions being left behind. On the other hand, the competitiveness of more advanced regions risks slowing down compared to a more sectoral approach. If the EU prioritises policies with the highest growth (Scenario 3 – sectoral approach), more advanced regions will benefit while other regions may fall behind.

In the aftermath of the COVID-19 crisis, which exacerbated regional inequalities due to the disproportionate effects of the economic downturn on different regions, cohesion policy has the potential to become a recovery tool for stagnating regions.⁶³ Addressing the structural problems of regions while reducing regional inequalities would require alignment between initiatives at the EU, national and regional levels. Research shows the importance of coordination and implementation at the national level. The most competitive countries are those with smaller gaps between regions.⁶⁴ If the EU wants to continue pursuing its vision of an economy that works for people and leaves nobody behind, it should put cohesion at its centre to drive this process.

Seeking synergies among policies to achieve cohesion objectives may lead to more effectiveness in addressing regional inequalities. Aligning cohesion objectives and enhancing a place-based

⁶³ A.M. López-Villuendas and Cristina del Campo, '[The impact of European regional cohesion policy on NUTS 3 disparities](#)', *Annual Regional Science*, 2024.

⁶⁴ European Commission, '[Regional Competitiveness Index](#)', 2.0, 2022 edition.

approach through assessing territorial impacts of policies can promote further cohesion and EU integration.

4.2. Ways to reduce regional inequalities

Independently of any of the scenarios described here (or by combining elements from them), the following actions could address the challenges identified previously.

Territorial impact assessments could prevent harming cohesion

Achieving cohesion is not solely the task of cohesion policy; its success depends on the collective contribution of all other EU policies as well. As all EU policies affect cohesion, understanding their territorial impacts would help understand how they affect regional disparities. In order to ensure that EU policies more effectively contribute to cohesion and better address regional inequalities, a territorial impact assessment should be conducted as part of policy design. Geography and the impact of spending remain key factors: resources should be allocated according to territorial specificities and should reach those who need them the most.

Seeking synergies between cohesion policy and other EU policies, and going beyond the 'do no harm to cohesion' principle, could bring more effectiveness in addressing regional inequalities. Where sectoral policies address and contribute to cohesion objectives, synergies should also be pursued between EU and national funding, seeking long-term strategies and linking investment with reforms.

Better data could inform policymakers to understand and address inequalities

While GDP is widely used to assess the progress and impacts of cohesion policy, it is not a sufficient proxy to capture inequalities. Additional indicators⁶⁵ are needed for policy design and funds allocation in order to better understand and address the specific needs of regions (urban versus rural, cross border regions, etc.).

Some NUTS 2 regions are too large and diverse to allow an effective allocation of funds. Allocating funds at the NUTS 3 level would better meet the needs of regions and prevent the uneven distribution and centralisation of allocated funds. To effectively target regions in need, policy evaluation and data collection could also be conducted at the NUTS 3 level.

Streamlining funds and implementing robust governance could help maximise impact

Challenges such as low absorption rates, limited local administrative capacity and the complexity resulting from a growing number of instruments could be addressed by streamlining the current cohesion framework. Despite previous simplifications, numerous administrative costs persist. Simplifying and harmonising implementation and reporting rules would alleviate administrative burden, increase efficiency and enhance impact. Addressing the needs of less developed regions through capacity building and improving administrative governance would assist these regions in accessing funds.

Financial support is just one approach to improving cohesion.⁶⁶ Enhancing multi-level governance with a focus on capacity building and trust in institutions also holds the potential to maximise the impact of cohesion policy in reducing regional inequalities.

⁶⁵ Please see the Annex to this study.

⁶⁶ See the Annex to this study.

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Potential added value of EU action in addressing regional inequalities

Final Research Paper
11 November 2024

This research paper analyses the potential added value of EU action in tackling regional disparities. It focuses on the role of Cohesion Policy and its interaction with other EU policies. The key message is that reducing regional inequalities is crucial to promoting economic, social and territorial cohesion across the EU. This is essential for future integration and stability across the Union. The paper examines three scenarios: a continuity scenario, an integrated approach and a sectoral approach. Each of these presents different ways the EU could address regional disparities. The scenarios show that Cohesion Policy plays a key role in reducing inequalities and its effectiveness depends on integration and coordination with other EU policies. Without a coherent, coordinated strategy and strong governance, regional disparities may persist.

The scenarios are designed to stimulate debate on the future of Cohesion Policy, its interaction with other EU and national policies, along with indicators beyond GDP that could be useful in the next round of Cohesion Policy.

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Executive summary

Less regional inequalities mean more cohesion. EU policies, especially Cohesion Policy, strive to increase growth and reduce inequalities by fostering more opportunities for all territories and people in the EU. Policies should also align with overarching EU goals and objectives towards a green and digital transition. In an ever-changing environment, every policy has an impact on regional inequalities and cohesion. At the same time, cohesion is a core EU value (Article 3 of the TEU) and should guide every policy. For this, stronger cooperation across policies is necessary.

This research paper looks into the potential added value of EU actions in addressing regional inequalities through three explorative, qualitative scenarios.

Among multiple EU policies, there is no doubt that Cohesion Policy is the only one with a clear mandate to reduce inequalities and pursue harmonious development for all territories across the EU. Other sectoral policies, including those covering the policy spheres of competitiveness, industry, research and innovation, as well as climate change should 'do no harm to cohesion', while prioritising their own goals and objectives to increase growth in the EU. The European Pillar of Social Rights functions as an umbrella policy promoting social inclusion and equality.

The policy spheres reviewed in this research paper, namely those of Cohesion Policy, industrial policy sphere, research and innovation policy sphere, competitiveness policy sphere and the European Pillar of Social Rights policy sphere should follow EU strategic priorities and position the EU at the global level. In a world currently undergoing major transformations, with geopolitical, climate and technological changes, policy goals should be changed and adjusted. Regional inequalities are likely to persist without a coherent and coordinated way to address them. Territorial and social inequalities may differ depending on a region's potential and ability to change.

Actions to reduce inequalities can be non-financial through better, multi-level governance, more administrative capacity and institutional learning. Financial actions include adequate and well targeted funding. Together, robust governance and solid funding are key for cohesion.

In this research paper, three qualitative and explorative scenarios look into how regional inequalities could be addressed, to inform potential future budget discussions and illustrate how Cohesion Policy may develop and interact with other policies.

The first scenario concerns continuity of the current set up. Here Cohesion Policy funds operate under shared management and are available for all EU regions. Nevertheless, some thematic priorities may be adjusted to new challenges and priorities, accommodating some emerging topics, without, however, influencing the big picture. Some regions may capitalise on the changing environment and benefit from it, while others may be more challenged. However, intra-regional inequalities are likely to persist – even in prospering regions.

The second scenario covers a more integrated approach, with funds and policies functioning under clear, common, overarching goals. Aligning objectives and priorities, prioritising issues and complementary policies may stimulate growth and reduce socio-economic disparities. However, it might be more challenging to increase EU global competitiveness in this scenario. Nevertheless, this approach could still be competitive, with policies needing to identify territories to focus on and places with high potential as well as sectoral policies competing for funding.

The third scenario looks at a more sectoral approach, where policies operate in a silo with limited cooperation. There is no overarching coordination or synergy. Economic, social and territorial cohesion are only addressed by Cohesion Policy, which is steadily reduced in the name of

competitiveness and growth. This shift prioritises efficiency and competitiveness to ensure growth. The management of funds would become more centralised and directed to territories which can bring results.

A summary of the expected impacts of the three scenarios is provided in Table 1.1. The scenarios show how regional and social inequalities could persist with EU policies only playing a small part in reducing them, without coordinated efforts at all governance levels and across governments. No one-size-fits-all approach would work. However, connecting different elements across policies, governance principles and funding streams could make a difference. Finally, yet importantly, non-financial actions like capacity and institutional building, as well as financial ones, such as adequate funding, would play a critical role.

All policies play their part in cohesion, whether by intention or not. The pursuit of more cohesion and less inequality should not be the responsibility of Cohesion Policy alone. All policies should contribute to more cohesion for all people, places and policies. There is still a need for policies at EU and national levels to share this objective and more actively address disparities by working together, reinforcing each other and tailoring support to different types of territories¹. Policies also need to add the territorial dimension in their design and implementation if the EU wants to improve how regional inequalities are addressed. A next step could be to make Territorial Impact Assessments mandatory, to reinforce territorial development in EU policies. Last but not least, a unified and overarching EU vision based on citizens' ideals could guide policy- and decision-making that is cohesive and inclusive, enhance cooperation between policies and goals and be a beacon for the design and implementation of policies that serve all places and people.

¹ 'Ninth report on economic, social and territorial cohesion.' European Commission, 2024a.

Table 1.1 – Summary of scenario impacts

	Scenario 1 – Continuity scenario	Scenario 2 – Integrated approach	Scenario 3 – Sectoral approach
Economic implications	Benefits advanced regions and increases their global position Risks of increased regional inequalities and development traps	Place-based approaches may strengthen the Single Market, competitiveness and economic dynamics and enable regions to capitalise on their own strengths Regional disparities could be reduced	EU growth and global presence may improve, however, at the cost of territorial cohesion Widening economic disparities across EU regions
Environmental implications	Promotes further sustainability and resilience across the EU Impacts on regional inequalities may be asymmetric	More sustainable territories, with improved ecosystem services Reduced regional disparities	Reduced progress on environmental sustainability Risk of natural degradation, loss of biodiversity and decreased circular economy efforts
Social implications	May reduce interpersonal and regional inequalities Cohesion Policy may not be enough to tackle deeper social disparities	Less social inequalities, more inclusion, care, education and skills Promotion of the freedom to stay	Social development may be a victim of policy fragmentation Social disparities may increase
Territorial implications	Potential benefits for developed and transition regions, in particular urban centres, places with research centres and innovation hubs	Enhanced territorial integration Balance between economic, social and territorial development	More developed and specialised regions may be in an advanced position Less competitive territories may be challenged and risk falling behind
Implications on EU integration	Growing disparities often fuel discontent	Reduced discontent, increased inclusion and feelings of togetherness in the EU Risk of growth and competitiveness slowing	A fragmented, sectoral approach may threaten EU integration and solidarity Risk of EU turning into a collection of regions, rather than a unified entity
Conclusion on regional inequalities	Regional inequalities may persist Territorial and social fragmentation may increase, with regions left behind stagnating or losing potential	More balanced development, with fewer regions being left behind Risk of growth and competitiveness slowing	Social and regional inequalities may increase, within and across Member States Uneven developments may weaken EU cohesion

Source: Spatial Foresight

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List of abbreviations

AI	Artificial Intelligence
CF	Cohesion Fund
CoR	European Committee of the Regions
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
GDP	Gross Domestic Product
JRC	Joint Research Centre of the European Commission
JTF	Just Transition Fund
LGBTQ+	Lesbian, Gay, Bi, Trans, Queer, and others
MFF	Multi-annual Financial Framework
NUTS	Nomenclature of the Units for Territorial Statistics
REACT-EU	Recovery Assistance for Cohesion and Territories of Europe
RHOMOLO	Dynamic Spatial General Equilibrium Model for EU Regions and Sectors
RRF	Recovery and Resilience Facility
SME	Small and Medium-Sized Enterprise
STEP	Strategic Technologies for Europe
TEU	Treaty of the European Union
TFEU	Treaty on the Functioning of the EU
TIA	Territorial Impact Assessment

1 Introduction

Economic, social and territorial cohesion is a fundamental objective of the EU, aiming to reduce disparities and enhance the harmonious development of all regions across the EU (Art. 3 TEU). The question about the added value of EU action addressing regional inequalities is therefore twofold. Should the EU continue to pursue the cohesion objective, and are the actions taken by the EU to pursue cohesion adequate?

Debates about ‘places left behind’ or ‘places that do not matter’², ‘places of discontent’³, the ‘diverse European geography of future perspectives’⁴ as well as ‘spatial inequalities and wellbeing’⁵ point at the risk of increasing regional inequalities. These can lead to people and places in the EU drifting apart. Consequently, more cohesion and actions limiting regional inequalities are essential for the future of the EU. However, as will be shown in this research paper, there are different ways the objective for reducing regional inequalities can be understood and pursued.

For most people the starting point for addressing regional inequalities in the EU is Cohesion Policy, which is both acknowledged and questioned. However, Cohesion Policy does not operate in a vacuum. Other EU and national policies, some of which discussed in this research paper, affect regional inequalities and cohesion. Furthermore, cohesion as such is too big of a task to be handled by a single policy alone, even one as dedicated and sizeable as Cohesion Policy. Therefore, the interplay between a wide range of policies at EU and national levels is essential to addressing regional inequalities⁶. This is even more inherent given current challenges adding stress to cohesion. Examples include the *polycrises*, economic, unemployment and cost of living challenges, persistent inequalities, but also GDP disparities, regions in development traps, demographic challenges, the twin green and digital transition and low institutional capacity.

In addition, the debate about future EU policies priorities⁷ with the need to boost competitiveness, prosperity and a sustainable future⁸ will impact regional inequality. This research paper reflects on the outlook for some EU policies and their implications for territorial disparities (chapter 2). The policies cover cohesion, industry, research and innovation, competitiveness, climate change and the European Pillar of Social Rights.

The review of these policy spheres highlights reflections on EU actions to reduce regional inequalities (chapter 3). This includes reflections on the understanding of cohesion and disparities, as well as on the need for both financial and non-financial policy measures concerning the interplay and coordination of policies.

In an ideal case, it should be possible to quantify how individual policies affect regional inequalities in the EU. However, it is impossible to put regional inequalities or the effect a policy has on a region in a single number. This is primarily because of the complexity of the topic. Regional inequalities can

² Andrés Rodríguez-Pose, ‘The revenge of the places that don’t matter (and what to do about it)’, *Cambridge Journal of Regions, Economy and Society*, 2018, pp. 189–209.

³ Lewis Dijkstra, Hugo Poelman and Andrés Rodríguez-Pose, ‘The geography of EU discontent’, *Regional Studies*, 2020, pp. 737–753.

⁴ Kai Böhme, Christian Lürer and Maria Toptsidou, ‘Towards a European Geography of Future Perspectives: A Story of Urban Concentration’, *Territorial Cohesion: The Urban Dimension*, Springer International Publishing, 2019, pp. 173–191.

⁵ Fedeli Valeria and Lenzi Camilla, eds., ‘Spatial Inequalities and Wellbeing’, Edward Elgar Publishing, 2024.

⁶ Kai Böhme and Maria Toptsidou, ‘Cooperate to survive: a new age of policies for cohesion’, *EU Cohesion Policy: a multidisciplinary approach*, Edward Elgar Publishing, 2024, pp 329–342.

⁷ Ursula von der Leyen, ‘Europe’s choice. Political Guidelines for the next European Commission 2024–2029’, 2024.

⁸ Enrico Letta, ‘Much more than a market. Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens’, European Commission, 2024.

and have to be discussed with regards to economic, societal, environmental impacts, at the very least and at very many different levels from within regions, to across the EU. Therefore, most studies analyse a wide range of data and numbers and develop qualitative assessments of regional inequalities. This research paper builds on qualitative assessments of other studies to provide an understanding of how regional inequalities are affected by policies and how different scenarios could play out.

Based on these general reflections of possible actions, this research paper outlines three scenarios based on desktop research. These aim to stimulate discussion and inform the design of possible future Territorial Impact Assessments (TIAs), by highlighting the importance of understanding the territorial implications of different policies.

The first scenario is about the continuation of the current set up (chapter 4). It offers a baseline or business as usual scenario where Cohesion Policy and its interaction with other policies continues along today's lines, with small changes which can be expected post 2027. The second scenario focuses on an integrated approach (chapter 5). This implies the various funds under Cohesion Policy become more integrated, and coordination between EU policies is strengthened. All policies need to contribute to reducing regional disparities in this scenario. The third scenario takes a more pronounced sector perspective (chapter 6). Each policy concentrates on its own objectives and aims to increase the efficiency and effectiveness of policy deliveries.

The scenarios showcase that the three approaches to the future of Cohesion Policy and the interplay with other EU policies would have different effects on regional inequalities in the EU. However, none of the three scenarios delivers a perfect solution. There are always trade-offs.

The final section (chapter 7) offers reflections comparing the three scenarios. For the future of EU integration, it is important to address regional inequalities and EU policies are important for this. However, to do this wisely, it might be necessary to rethink these policies.

2 EU policies and regional inequalities

Key findings

- EU Cohesion Policy is recognised as the most successful development policy globally, significantly contributing to reducing regional inequalities. However, challenges persist, including the need for policy adaptation in response to external factors such as geopolitical tensions, economic shifts and climate change.
- The EU industrial policy sphere is essential to increasing global competitiveness, but risk exacerbating regional inequalities by concentrating benefits in developed urban areas, necessitating a more inclusive approach to ensure all regions can benefit, e.g. through place-based or territorially differentiated approaches to industrial policy.
- The EU research and innovation policy sphere is key to maintaining global competitiveness, but tend to favour regions with existing strong research infrastructure, potentially widening the innovation gap between regions.
- The EU competitiveness policy sphere drives economic growth and innovation in the EU. They should be balanced in supporting advanced regions and less developed areas to avoid increasing regional disparities.
- The EU climate change policy sphere, guided by the Green Deal, aims for climate neutrality by 2050, but the varying regional impacts of climate adaptation and decarbonisation may lead to increased regional inequalities if not managed inclusively.
- The European Pillar of Social Rights focuses on ensuring a fair and just transition for all EU citizens, but regional inequalities persist, especially in access to education, employment and social services, requiring coordinated efforts to address these disparities.
- The reduction of regional inequalities in the EU requires not just Cohesion Policy but a coordinated effort across all EU policies, with a focus on integrating the territorial dimension and ensuring policies work together to support all regions effectively.

Less regional inequalities mean increased cohesion. EU policies and primarily Cohesion Policy strive to increase growth and reduce inequalities by fostering more opportunities across all territories and people, while being aligned with EU goals and objectives towards a green and digital transition.

This chapter briefly reviews EU policy spheres that influence regions and their inhabitants in significant ways, but which also play a key role in the development of the EU. These range from industrial, to competitiveness, innovation, environment and social policies. This review briefly presents how they operate, possible transformations that influence these policy spheres, as well as how they may develop in the future. The chapter also looks into how far these policy spheres influence regional inequalities and how the policies are governed. The review is based on desk research, though ideally each policy domain would have a full TIA⁹ which is beyond the scope of this study. However, the insights can provide a useful input to future TIAs looking at regional exposure, sensitivity and impact or vulnerability.

⁹ 'State of the art and challenges ahead for territorial impact assessments.' European Committee of the Regions, 2020.

2.1 EU Cohesion Policy

Today and modus operandi. According to the European Commission, Cohesion Policy is the most successful development policy in the world, with the biggest budget to reduce regional inequalities¹⁰. Over the years, it has widened its focus. Today it contributes to a broad range of EU objectives, from supporting economic catch-up in poor regions and strengthening EU competitiveness, to fighting climate change, supporting digitalisation and, most recently, to responding to short-term crises. It is the EU's key policy for harmonious development and the shared prosperity of all places and people in the EU. Its objectives are to promote a balanced territory and reduce inequalities, foster economic development and support economic, social and territorial cohesion in the EU. Cohesion Policy operates through four core funds; the European Regional and Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF) and the Just Transition Fund (JTF). Cohesion Policy initially started by supporting transport and environmental infrastructure. However today the funds support innovation, infrastructure, education, social inclusion, climate adaptation, nature protection and others, through targeted investments for job creation and growth. Cohesion Policy addresses all EU territories, covering different types of regions. These include urban, rural and sparsely populated regions, those with geographic specificities such as islands, mountainous or remote regions, as well as border regions. An important component of Cohesion Policy is Interreg, the key EU instrument which fosters cooperation across regions and Member States, through its transnational, cross-border and interregional cooperation strands and projects. Cohesion Policy has a comprehensive approach towards territorial development, driving social and economic progress across the EU and lifting many citizens from poverty¹¹.

Transformations. Future contributions of Cohesion Policy to economic, social and territorial cohesion will depend on a range of external factors. These include major transformations outlined by the group of high-level specialists on the future of Cohesion Policy¹². The twin transition, as well as an increased focus on competitiveness and growth put additional pressure on addressing inequalities. Several further challenges may influence cohesion and Cohesion Policy in different ways. First competitiveness, as in recent years the world has seen remarkable prosperity and growth, while the EU has lagged, influencing its profile across the world. Second, polarisation, where growth is urban-centric, leaving other types of territories underdeveloped and exacerbating inter-regional inequalities. Other challenges include a lack of opportunities in several regions, which leaves people stuck in territories with scarce opportunities and a higher risk of poverty. Developing the 'freedom to stay' as stressed by Enrico Letta, would be key to supporting the most deprived territories and create the conditions for people to stay in their region instead of needing to relocate for a better future¹³. Lastly, future global *polycrises* with their aftermaths and geopolitical tensions would certainly play a key role¹⁴. Beyond those external shocks, further developments such as EU enlargement will influence or even alter the course of Cohesion Policy.

Policy adaptation. The future of Cohesion Policy is uncertain. The group of high-level specialists on the future of Cohesion Policy¹⁵ argues that it should continue operating under the framework of no 'one-size-fits-all' and be more place and people centred, i.e. tailored to the unique characteristics and needs of different territories, while at the same time respecting people's needs and wellbeing.

¹⁰ 'Forging a sustainable future together. Cohesion for a competitive and inclusive Europe: report of the High-Level Group on the future of cohesion policy', European Commission, 2024b.

¹¹ Ibid.

¹² Ibid.

¹³ Enrico Letta, 2024.

¹⁴ European Commission, 2024b.

¹⁵ Ibid.

Exploiting regional capacities involves building regional potential. In addition, institutional capacity improves the governance and effectiveness of Cohesion Policy and makes it more resilient and adaptable. Still, Cohesion Policy may need to redefine and adjust to changing framework conditions. Given the latest crises, in particular the COVID-19 pandemic and the war in Ukraine, Cohesion Policy has acted as a crisis response vehicle. However, it should be a proactive policy for territorial development addressing long-term goals. In view of 2024–2029 Commission policy priorities, together with a possible future role for the Recovery and Resilience Facility (RRF), Cohesion Policy will need to adapt further. Also, transformations may bring new inequalities, increasing the risk that territories face development traps with a lack of opportunities or the economic dynamism to catch up¹⁶.

Regional inequalities. As outlined in the 9th Cohesion Report¹⁷, Cohesion Policy has had a considerable impact on socio-economic development in EU regions, particularly for less developed regions, reducing inequalities at the EU level and within Member States¹⁸. It provides almost 13% of total government investment in the EU, with 51% in less developed Member States and has helped every region make the most of EU membership¹⁹. Although Cohesion Policy has contributed to convergence between Member States, sub-national inequalities persist, in particular between growth-poles, i.e. dynamic places of economic activity, innovation and investment that generate growth and regions lagging behind that are struggling to develop. Inequalities are often seen between metropolitan or large urban areas and rural or less developed territories. As mentioned above, although several regions in the EU have high growth trajectories, there are still regions in a development trap that have not managed to grow mainly due to lack of capability in developing complex products. Such inequalities may increase discontent²⁰. At the same time, critiques of Cohesion Policy question its contribution to cohesion claiming it increases incomes for affluent households but barely affects low-income households in supported regions, and thus fails to reduce regional and social inequalities²¹.

An example that highlights regional inequalities is the regional development trap indicator in Map 2.1. The map shows that some development gaps persist by looking at whether a region's growth – in terms of GDP per capita, productivity and employment – has been higher than the EU, the Member State or the region itself over the last five years. A number of regions are facing economic stagnation or decline and are at risk of falling into a development trap (i.e. falling behind EU and national average growth rates as well as their own past performance). These include many rural areas in Eastern Europe and some larger former industrial poles in more developed regions.

¹⁶ Ibid.

¹⁷ European Commission, 2024a.

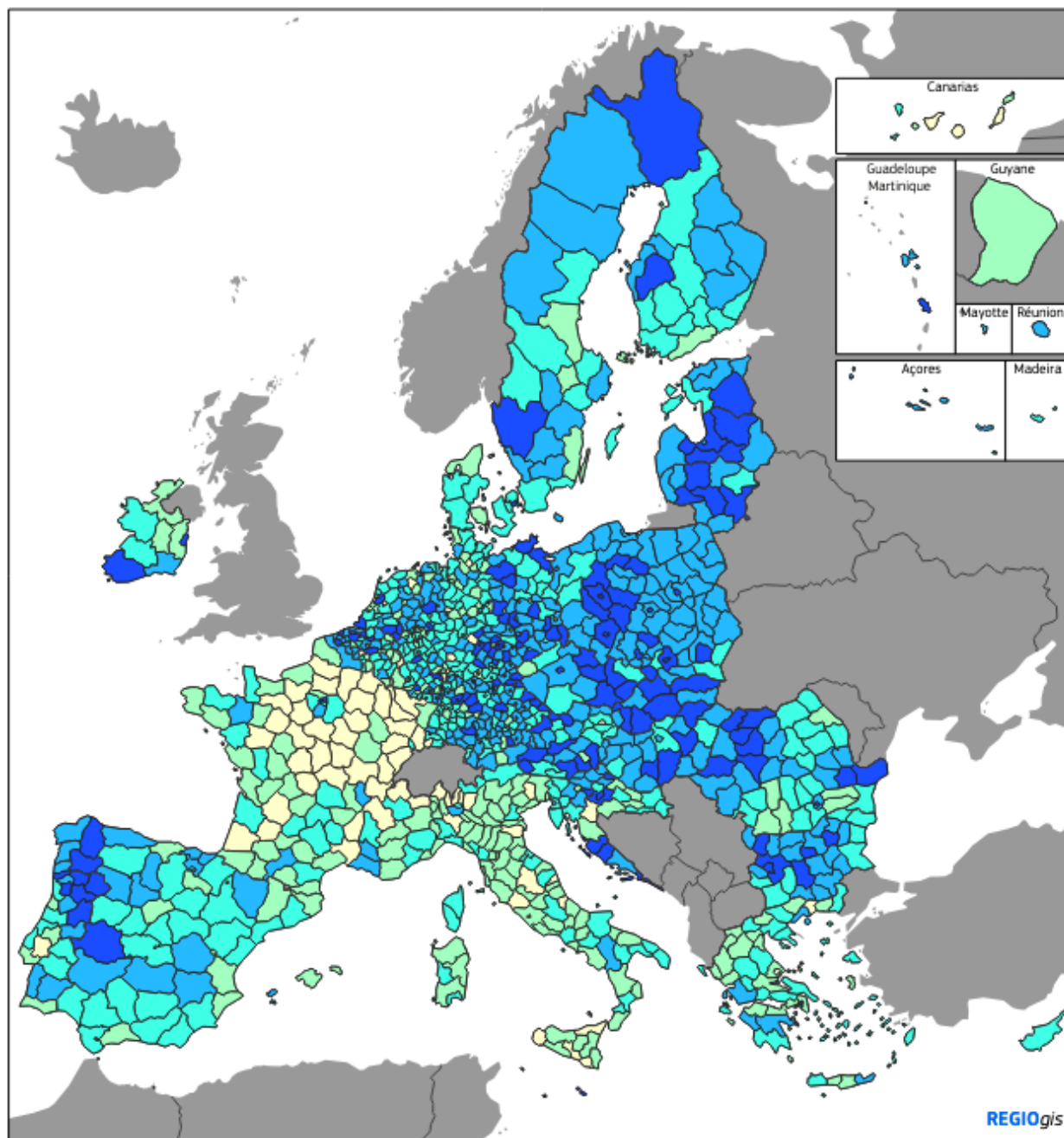
¹⁸ Francesca Crucitti et al., 'The impact of the 2014–2020 European Structural Funds on territorial cohesion', *Regional Studies*, 2024, pp. 1568–1582.

¹⁹ European Commission, 2024a.

²⁰ Andrés Rodríguez-Pose, Lewis Dijkstra and Hugo Poelman, 'The geography of EU discontent and the regional development trap', Publications Office of the European Union, 2023.

²¹ Nils Redeker, Daniel Bischof and Lang Valentin, 'Fixing Cohesion. How to Refocus Regional Policies in the EU. Hertie School. Jacques Delors Centre. Policy Brief.', Hertie School & Jacques Delors Centre, 2024.

Map 2.1 – EU regions in a development trap (DT1) (2001-2018)



Map 1.7 Economic development index at NUTS 3 level, 2001–2021

Likelihood of being in a high-growth trajectory

- < 0.3
- 0.3 – 0.4
- 0.4 – 0.5
- 0.5 – 0.6
- > 0.6
- no data

This index measures if a region's growth is higher than that of the EU, of its country, or of the region itself during the previous five years. It considers growth of GDP per head, productivity, and employment per head over a five-year period. A region scores 1 for each time its growth is higher. This score between 0 and 9 is then rescaled to 0 and 1. Source: DG REGIO calculations based on JRC and Eurostat data.

0 500 km

© EuroGeographics Association for the administrative boundaries

Source: European Commission (2024) Ninth Report on Economic, Social and Territorial Cohesion.

Other indicators that may help to understand regional disparities include the economic development index, regional growth per capita and the European quality of governance index (other relevant indicators are listed in the appendix). These all show different territorial disparities that illustrate how cohesion policy affects regional disparities in the EU. As will be shown in section 7.2, understanding progress in reducing regional disparities and allocating resources to different types of regions requires looking beyond static indicators. Development needs and disparities must also be seen in terms of productivity, employment dynamics and development opportunities.

Governance. There are two main governance set ups for EU funding, managed directly by the European Commission or management is shared between the Commission and Member States. Cohesion Policy operates under shared management. The Commission entrusts Member States with the management and implementation of national and regional programmes. Multi-level governance also puts a strong emphasis on the partnership principle. This means every programme is developed and implemented through a collective process involving authorities at EU, national, regional and local levels, social partners and organisations from civil society.

2.2 EU industrial policy sphere

Today and modus operandi. As economic shifts accelerate, there is an urgent need for the EU to increase its strategic autonomy and become a leading competitor globally. The EU industrial policy sphere plays a key role in that. The New Industrial Strategy, updated in 2021 after the lessons learnt from the COVID-19 pandemic and along with the uptake of the twin transition, aims at a globally competitive green and digital EU industry through enhanced industrial ecosystems, reduced dependencies and increased innovation²². The Strategy is underpinned by earlier initiatives such as the European Industrial Renaissance²³. This emphasises the need for re-industrialisation in the EU to increase competitiveness through an integrated approach that modernises existing industries and supports new ones to create a resilient industrial ecosystem. 'Digitising European Industry' aims at untapping EU potential in digital technologies to transform EU value chains. In line with the digital transition, the initiative supports the digital transformation of traditional industries to enhance their competitiveness. Similarly, the Digital Europe Programme supports the digital transformation and advanced technologies. The green transition also highly influences the industrial policy sphere in the EU, aiming for a climate neutral EU by 2050, integrating environmental considerations, sustainability and green technologies in industrial practices. It acts as an 'overall reminder' for the industrial policy sphere and its initiatives to take climate neutrality seriously in their operations. Complementing this, the Critical Raw Materials Act aims at reducing dependence on non-EU sources, by capitalising on the internal supply of critical raw materials. The Horizon Europe Programme also plays a key role in the EU industrial policy sphere by supporting and financing innovative projects. Last but not least, the European Digital Single Market aims at creating a seamless digital environment, removing online barriers, fostering digital activities across borders and creating a unified system for the growth of digital services in EU Member States.

Transformations. In an ever-changing world, the EU is also facing substantial transformations, not least in industry. Decarbonising industry and reducing energy prices will be a key priority in the next years, as highlighted in the Commission's political priorities²⁴. Over the years, the EU has been losing its global competitive edge and this may get worse with new technological and economic transitions. A new EU industrial strategy is needed to combat challenges, overcome existing barriers and

²² COM (2021) 350 final 'Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery', European Commission, 2021.

²³ COM (2014) 014 final 'For a European Industrial Renaissance', European Commission, 2014.

²⁴ Ursula von der Leyen, 2024.

strengthen industrial capacity by closing the innovation gap, developing a joint plan for decarbonisation and competitiveness and reducing dependencies²⁵. In addition, recent geopolitical challenges increase the need to revive industrial policies in the EU and reduce dependencies on other countries, especially in critical sectors such as health and technology, as well as elevate the EU up the global industrial ladder. Strategic areas which may need action include raw materials, active pharmaceutical ingredients, Li-ion batteries, hydrogen and semiconductors as well as cloud and edge computing²⁶. The global changes will influence businesses and require qualified people and upskilling to be more competitive. Many jobs will change in the future, influenced by new technology so the labour force needs to be up-to-date and trained. In an ageing society, finding and training the right people is challenging²⁷.

Policy adaptation. With all these changes, policies will also have to change and adapt. Policies under the EU industrial policy sphere will be affected by artificial intelligence, digital transformations, green technology and sustainable industry. This will mean investing more in renewable energy, circular approaches, low carbon technology, innovation, social responsibility, fair trade, ethical material sources and value chains, continuous learning and upskilling, as well as diversifying value chains by re-industrialising raw material or more sustainable imports. The future may call for more customised industrial sectors, including the automotive, pharmaceutical and electronics sectors.

On the regulatory side, the EU can protect citizens through more tailored frameworks, ensuring cyber security and data protection while encouraging innovation, Artificial Intelligence (AI) and the internet of things. It can also provide more tailored funding mechanisms that enhance the new industrial focus. In addition, through upskilling, the EU can ensure a more dynamic and evolving workforce. Focusing on SMEs, the EU should encourage a more sustainable and digital Europe. Last but not least, it may continue working on strategic autonomy with further links and synergies to maximise its influence.

Regional inequalities. The impact of EU industrial policy sphere on cohesion may be diverse but they risk increasing regional inequalities if they only support strong players. As outlined by Storper²⁸ for the EU to boost its global competitiveness, overperforming or at least very high performing urban agglomerations are essential. They need to be further strengthened, as the fundamentals of productivity and innovation are strongly driven by agglomeration economies. Long-term processes of specialisation and diversification can reconfigure competitive advantages adapting regions to technological shifts so they can participate in the global division of labour²⁹.

The EU industrial policy sphere should reflect EU values and social market traditions. Industries, regions and places that have the critical mass to develop industrially or are innovation leaders may be the first to profit. In addition, places that have the capacity to become global players in the new industrial fields, very possibly urban areas, may profit more. Places facing development traps³⁰, low population or remoteness may be more challenged, though specificities and potential may increase opportunities enabling some regions to leapfrog and become key players.

²⁵ Mario Draghi, 'The future of European competitiveness. Part A. A competitiveness strategy for Europe.', 2024;

²⁶ SWD(2021) 352 final 'Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery', European Commission, 2021.

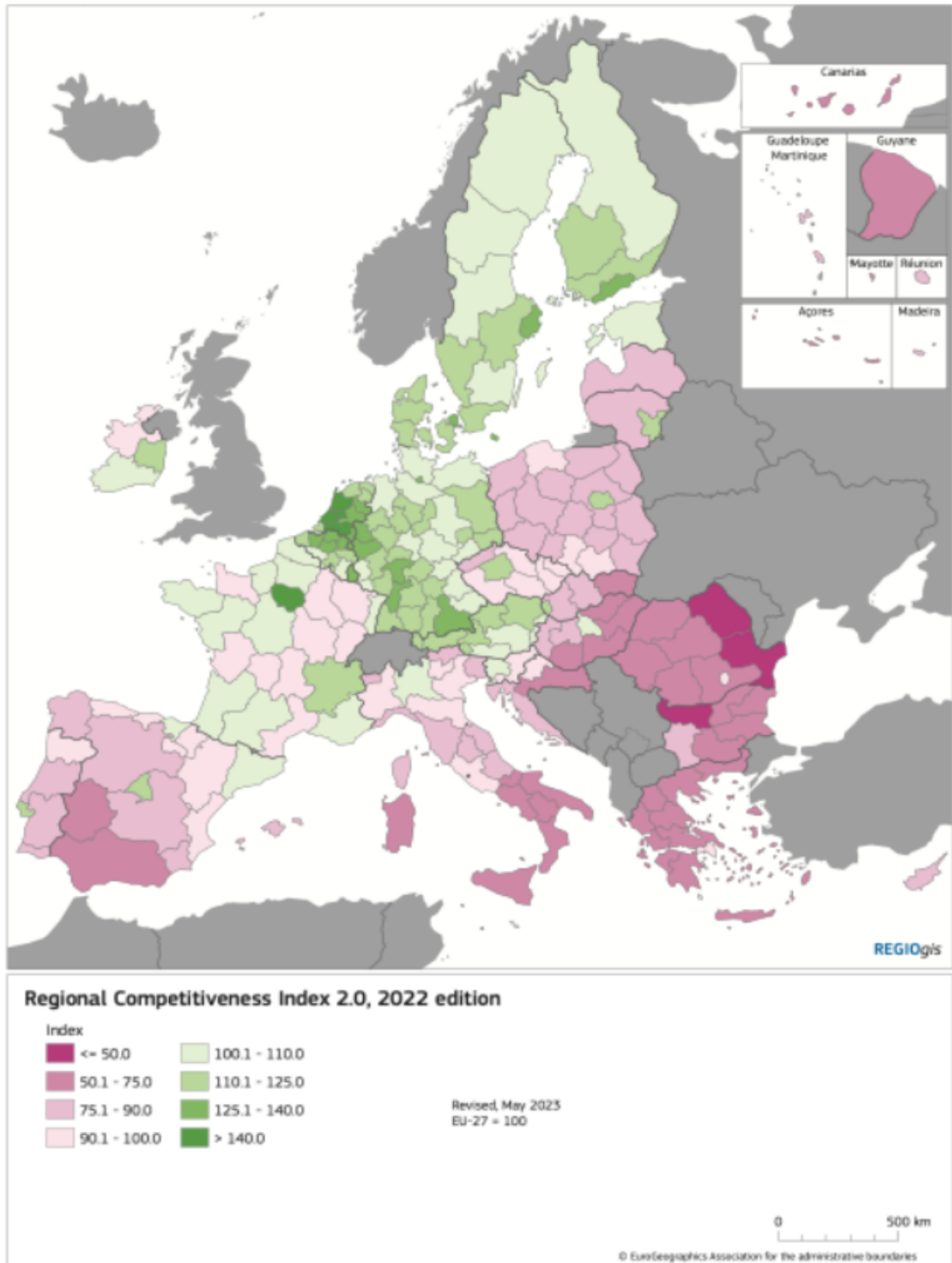
²⁷ COM(2023) 32 final, 'Harnessing talent in Europe's regions.', European Commission, 2023.

²⁸ Michael Storper, 'Development: A Conceptual Framework for Cohesion Policy', European Commission - DG REGIO, 2023.

²⁹ Riccardo Crescenzi and Oliver Harman, 'Harnessing Global Value Chains for regional development: How to upgrade through regional policy, FDI and trade', Routledge, 2023.

³⁰ Andrés Rodríguez-Pose, Lewis Dijkstra and Hugo Poelman, 2023.

Map 2.2 – Regional Competitiveness Index, 2022



Source: EU Regional Competitiveness Index 2.0 - 2022 edition.

A more inclusive – i.e. place-based or territorially differentiated – approach to industrial policies may help to ensure that all regions can benefit.

However, not all regions will benefit equally. The call for a European re-industrialisation in the wake of the economic crisis of 2008/09³¹ has been re-emphasised during the COVID-19 crisis and the Russian war on Ukraine. Capello and Cerisola³² have pointed out that this re-industrialisation, especially modernisation, could widen the gaps between stronger and weaker areas in the same country. Even though Europe will benefit as a whole, cohesion within countries may be hampered.

The regional competitiveness index in Map 2.2 brings together a rich set of indicators to illustrate a region's ability to provide an attractive environment for businesses and residents to live and work. The result shows wide disparities in competitiveness across the EU. It shows the strong performance of large urban areas and considerable disparities, especially between capital regions and the rest of a country. It also highlights that more competitive countries tend to have a smaller gap between the capital and their other regions, as well as less internal variation.

Other indicators that may help to understand regional disparities include the regional innovation scoreboard (see Map 2.3), and employment in the high-tech sector or global connectivity (other indicators are listed in the appendix). They all show different territorial disparities that are relevant to discussing and understanding how industrial policies affect regional disparities in the EU.

Governance. Industrial policies – at least those managed outside Cohesion Policy – focus on industries and economic players with predominantly centralised governance. Diversifying and investing in new industries, especially innovating and prioritising top edge industrial spheres may prioritise competition over equality. Putting national interest to becoming a world leader in different spheres may hamper cohesion, if the focus is on places that generate growth and investments. In addition, some regions may show potential in specific industries, however national decisions to focus on growth poles could leave little leverage for regional authorities.

2.3 EU research & innovation policy sphere

Today and modus operandi. The EU Research and Innovation policy sphere plays a key role in EU competitiveness, development and progress, serving a range of economic, social and environmental goals, including the green and digital transition. Research and innovation remain key to the EU being a global player, becoming more competitive and able to address challenges posed by societal and economic shifts. Several policies support innovation and research. The digital transition, which is a key goal, will help the EU to be more competitive. To empower a Europe 'fit for the digital age', the EU elaborated a 2030 Digital Compass towards a way for the digital decade. This includes the ambition for 80% of adults to have with at least basic digital skills, male and female convergence for 20 million people employed as information and communication technology (ICT) specialists, all EU households to be covered by a gigabit network and populated areas having 5G by 2030. It also committed to at least 20% of world production by value of cutting-edge and sustainable semiconductors and processors in the EU. In addition, there should be 10 000 climate neutral highly secure edge nodes, 75% of EU enterprises with cloud services, big data and AI, more than 90% reaching basic digital intensity, 100% of public services online, 100% medical records access online and 80% of citizens using a digital ID³³. The EU still lags behind the US in adopting digital technology

³¹ COM(2012) 582 final 'A Stronger European Industry for Growth and Economic Recovery', European Commission, 2012, and COM(2014) 14 final 'For a European Industrial Renaissance', European Commission, 2014.

³² Robera Capello and Silvia Cerisola, 'Spatial Inequalities in an Era of Modern Industrialisation', *Spatial Inequalities and Wellbeing*, Edward Elgar Publishing, 2024.

³³ COM(2021) 118 final '2030 Digital Compass: the European way for the Digital Decade.', European Commission, 2021.

and its dependence on non-EU and global partners for critical technology and digital infrastructure adds risks to the strategic autonomy goals. In particular, the Draghi Report highlights that the productivity gap between the EU and US is explained through the tech sector where the EU is weak in emerging technologies. The innovation gap between the EU and US and China remains wide³⁴. Several policies and programmes concern the digital transition, as well as research and innovation in the EU. The European Research Area agenda advocates a single borderless market for research, innovation and technology where Member States can come together and improve policies and systems with the free movement of researchers, knowledge and innovation. The aim is to create a unique research and innovation area through open science, researcher mobility, infrastructure, cooperation and enhanced innovation capacity. The European Innovation Council also supports innovation and scaling up of companies by providing funding, investment opportunities and business acceleration services. The Digital Europe Programme fosters research and innovation by accelerating the digital transformation with the development and deployment of advanced digital technology. Horizon Europe is another key funding mechanism that supports innovative research and top notch projects across Europe. ESI Funds also support research and innovation through operational programmes and their priorities. Regional Innovation Strategies are another mechanism promoting regional innovation by capitalising on the specific potential of regions. The European Institute of Innovation and Technology supports education, female entrepreneurship, outreach and AI to support innovation in the EU³⁵. The new European innovation agenda also concerns deep tech innovation in the EU, building on the EU's industrial base, as well as its vibrant ecosystem and framework conditions³⁶. The digital single market, digital compass and digital agenda set key objectives for the digital transition.

Transformations. Digitalisation, research and innovation are some of the fastest developing spheres. AI will dominate the coming years and the AI package will help the EU to be competitive in this landscape while leaving no one behind in the digital transformation. The JRC estimates that investments in AI increased by some 71% to 94% from 2018 to 2020 and faster in the private than the public sector³⁷. In 2020, the private sector invested over EUR 10.7 billion in the development and adoption of AI, with France and Germany leading³⁸. Yet, the EU27 lag behind the UK when it comes to investments. Geopolitical considerations and global divides also need to be taken into account to safeguard long-term development and may direct the focus of research towards cyber security, or defence.

Policy adaptation. The EU policy sphere on research and innovation will need to adapt. To further strengthen the EU research and innovation sector Letta³⁹ proposes adding a 5th freedom to the four Single Market freedoms, the 'freedom to stay', which should enhance research, innovation and education. The EU should offer unified opportunities for frontier research and new business models that favour investment in new technologies to maximise public interest sharing and limit the concentration of private value from data. The strategic plan for research and innovation points at strengthening EU competitiveness through sustainable development goals, promoting open science and innovation, building a strong European Research Area and investing in people and skills. To remain competitive, high qualified personnel are necessary so they are high on the EU's agenda. The

³⁴ Mario Draghi, 2024.

³⁵ More information can be found at: <https://eit.europa.eu/community-activities>

³⁶ COM(2022) 332 final, 'A New European Innovation Agenda', European Commission, 2022.

³⁷ 'AI Watch: estimating AI investments in the European Union.', Joint Research Centre, 2022.

³⁸ Ibid.

³⁹ Enrico Letta, 2024.

digital transition also needs to continue being seen in tandem with the green transition, with further synergies from integrating the transformations of one into the other.

Regional inequalities. The EU research and innovation policy sphere focuses on supporting excellence and spurring international cutting-edge research and innovation centres. These are not evenly distributed across the EU as shown in the European Regional Innovation Scoreboard⁴⁰ and by ESPON⁴¹. Innovation hubs are effective but result in strong and persistent variations between Member States and regions⁴², with a regional innovation divide⁴³. Research and innovation is important to EU's development and competitiveness, but may risk increasing regional inequalities, if disregarding regional specificities. While some regions may adapt to developments, albeit in different ways, others may not be able to catch up, especially if developments are not place sensitive and do not respect different territorial needs. The pursuit towards more innovation may increase competitiveness among regions but lead to less development those who cannot catch up. There are inequalities across regions with or without excellent research institutes and universities, with a critical mass of skilled and educated staff also playing a key role for big tech companies. Innovation rarely enables follower and lagging areas to catch up with more advanced ones, often due to the network effects of key innovation players⁴⁴.

An example of regional inequalities is the regional innovation scoreboard shown in Map 2.3. Based on a wide range of indicators, it provides a comparative assessment of regional innovation systems. It shows that the most innovative regions in Europe are the capital regions of Denmark, Finland, Sweden and Germany, as well as Oberbayern in Germany. The map also shows the importance of the national context, as the most innovative regions tend to be in the most innovative countries, although there are exceptions. One is Zagreb, which is classified as a strong innovator, while Croatia as a country is classified as an emerging moderate innovator.

Other indicators that may help to understand regional disparities include public and private expenditure on research and innovation, registered patents and employment in knowledge-intensive activities (other indicators are listed in the appendix). All of these show differences that are relevant for discussing and understanding how research and innovation policies affect regional disparities.

Governance. EU research and innovation policies are usually managed with no shared management involving sub-national players. The limited regional dimension or multi-level governance is in the form of Smart Specialisation Strategies and links to Cohesion Policy.

⁴⁰ 'Regional Innovation Scoreboard 2023', Office for Official Publications of the European Communities, European Commission, 2023, <https://data.europa.eu/doi/10.2777/70412>.

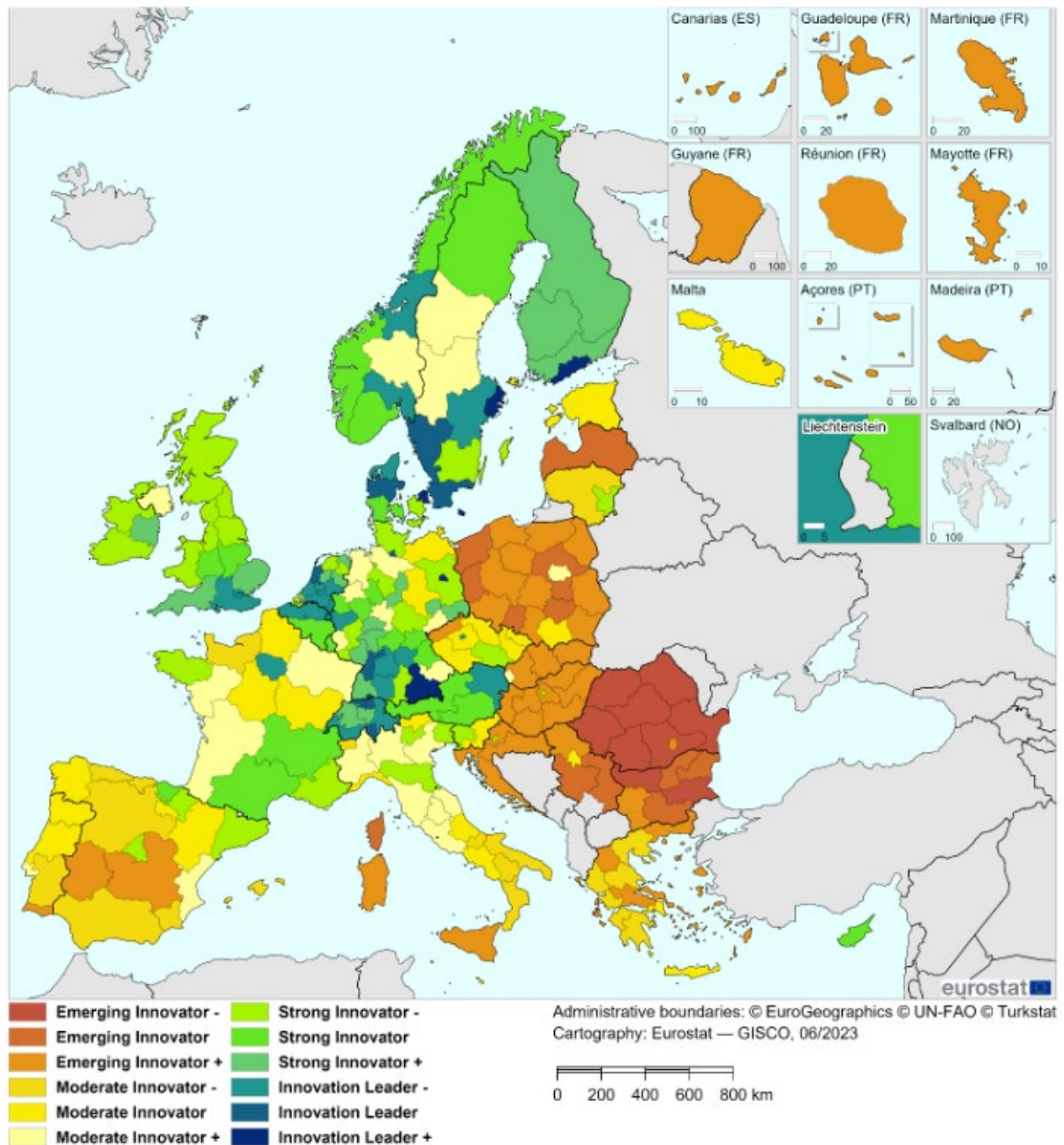
⁴¹ Roberta Capello et al., 'ESPON KIT. Knowledge, Innovation, Territory. Final Report.' ESPON, 2012.

⁴² 'Combining regional strengths to narrow the EU innovation divide', Publications Office of the European Union, European Commission, 2024, <https://data.europa.eu/doi/10.2777/87992>.

⁴³ Andrés Rodríguez-Pose, 'The research and innovation divide in the EU and its economic consequences', *Science, Research and Innovation Performance of the EU 2020*, Publications Office of the European Union, 2020, pp. 677–707.

⁴⁴ Jon Mikel Zabala-Iturriagoitia et al., 'The productivity of national innovation systems in Europe: Catching up or falling behind?', *Technovation*, 2021.

Map 2.3 – Regional Innovation Scoreboard, 2023



Source: European Commission Regional Innovation Scoreboard.

2.4 EU competitiveness policy sphere

Today and modus operandi. Ensuring and enhancing competitiveness is a key priority for the EU. Policies look to enhance economic performance, foster innovation and support SMEs by enabling sustainable growth, with reforms and investments that strengthen cohesion and competitiveness in the economy. This can be done by strengthening SMEs, reducing market barriers, accelerating the twin transition and developing key digital economy goals. Competitiveness is based on foreign investment and trade, better regulations, licencing and inspections, SMEs, competition and consumer policy, the digital economy, research and innovation as well as investment management⁴⁵.

⁴⁵ More information can be found at: https://reform-support.ec.europa.eu/what-we-do/competitiveness_en

These pillars are supported by the European Commission to build sustainable and competitive economies through reforms and investments.

In his report 'Much more than a Market', Letta argues along similar lines⁴⁶. This includes empowering research and innovation by simplifying the regulatory and administrative framework, further integrating the Single Market and supporting SMEs. The report advocates for coordinated efforts to enhance EU competitiveness and meet current global challenges. Indeed, completion of the Single Market is a key driver to securing long-term competitiveness. For the 30th anniversary of the Single Market, the Commission has emphasised that competitiveness and productivity are essential for the EU to flourish. Nevertheless, since the mid-1990's productivity growth has weakened. To revamp and foster productivity, the Commission aims to focus on competitiveness and work along nine drivers. These are a functioning Single Market, access to private capital and investment, public investment and infrastructure, research and innovation, energy, circularity, digitalisation, education and skills, as well as trade and an open economy. In addition, upskilling and investing in education will be necessary⁴⁷.

Transformations. The EU competitiveness policy sphere will be influenced by economic competition. This will include AI, healthcare and pharmaceuticals, talent acquisition as well as green and sustainable practices. Competitiveness will also be influenced by global competition and geopolitics, digital transformation, supply chains and reindustrialisation in the EU. Automation, robotics, smart manufacturing and the automotive industry, including electric and autonomous vehicles, may see increased competition both within and beyond the EU.

Policy adaptation. Competitiveness is also highlighted as a primary goal in Commission guidelines for the next five years⁴⁸. Deepening the Single Market and reducing administrative barriers would enable companies to maximise their potential, as would digitalisation, research and innovation as well as support for SMEs and entrepreneurs. In addition, full implementation of the Single Market should be a core building block for EU competitiveness⁴⁹. The Clean Industrial Deal will add a new dimension to competitiveness. In an ever-growing global competitive environment, the EU will direct investments to critical projects in biotechnology, digital technology⁵⁰ and clean energy. The Strategic Technologies for Europe Platform (STEP) boosts investment in critical technologies and will raise and steer funding across eleven programmes. These will support strategic projects linked to Net-Zero industry and critical raw materials, as well as promote STEP Seal⁵¹. This is an EU label for high-quality projects that contribute to STEP objectives, giving them more visibility⁵².

Regional inequalities. The pursuit of competitiveness and growth is vital for EU prosperity, with consequences across regions as benefits vary. The Regional Competitiveness Index⁵³ shows diversity with some regions experiencing more growth, especially those with innovation and research experience, while others lag behind. Regional inequalities may persist or increase depending on infrastructure, skilled personnel, advanced innovation and technology, which may favour capital regions or large urban areas. Less developed rural or peripheral regions, where the

⁴⁶ Enrico Letta, 2024.

⁴⁷ COM(2023) 168 final 'Long-term competitiveness of the EU: looking beyond 2030', European Commission, 2023.

⁴⁸ Ursula von der Leyen, 2024.

⁴⁹ Mario Draghi, 2024.

⁵⁰ More information can be found at: <https://fasi.eu/en/articles/news/27066-eu-budget-2028-2024-event-what-s-next-and-how-do-we-cope.html>

⁵¹ See https://strategic-technologies.europa.eu/about/step-seal_en (STEP = Strategic Technologies for Europe Platform)

⁵² More information can be found at: https://strategic-technologies.europa.eu/index_en

⁵³ See https://ec.europa.eu/regional_policy/information-sources/maps/regional-competitiveness_en

digital divide is strong, may lose competitiveness, unless policies strongly focus on regional characteristics, needs and potential.

There is a risk that EU competitiveness policies disproportionately benefit developed regions with strong economic foundations, advanced infrastructure and better access to resources. These regions are often better equipped to attract funding, implement projects and leverage opportunities, widening the gap with less developed regions⁵⁴. There are concentration benefits in stronger regions, as agglomerations are crucial to regional performance with local knowledge generation, accumulation and spillovers. Furthermore, there are connectivity benefits, especially with key nodes in the global economy. The economy, labour market, educational infrastructure, technological advances and scientific progress are crucial for regional competitiveness⁵⁵. Given the inertia of these factors, competitiveness policies might inadvertently polarise economic activities, where high-value industries concentrate in a few regions, leaving others behind. This concentration can draw talent and resources from less developed regions, reinforcing existing inequalities.

An example of inequalities concerns regions in a talent development trap and those at risk of falling in one, as shown in Map 2.4. A region is in a talent trap if (a) the average annual decline in population aged 25–64 between 2015 and 2020 is higher than 7.5 per 1 000, (b) the share of the population aged 25–64 with a tertiary education is lower than the EU average in 2020, and (c) the share of population aged 25–64 with a tertiary education has increased by less than the EU average for 2015 to 2020. A region is considered to be at risk of falling into a talent trap if it is not in one but has annual average outward migration of more than 2 per 1 000 of its population aged 15–39 from 2015 to 2020⁵⁶. Regions in a development trap are most common in Bulgaria, Romania, Hungary, Croatia, southern Italy, Portugal, eastern Germany and the north-eastern and outermost regions of France. These have an increasingly shrinking working age population with a small and stagnating number of people with tertiary education.

Other indicators that may help to understand regional disparities include the regional competitiveness index (see Map 2.2), labour force education, or access to and use of digital technologies (other indicators are listed in the appendix). All these show differences that are relevant for discussing and understanding how competitiveness policies affect regional disparities in the EU.

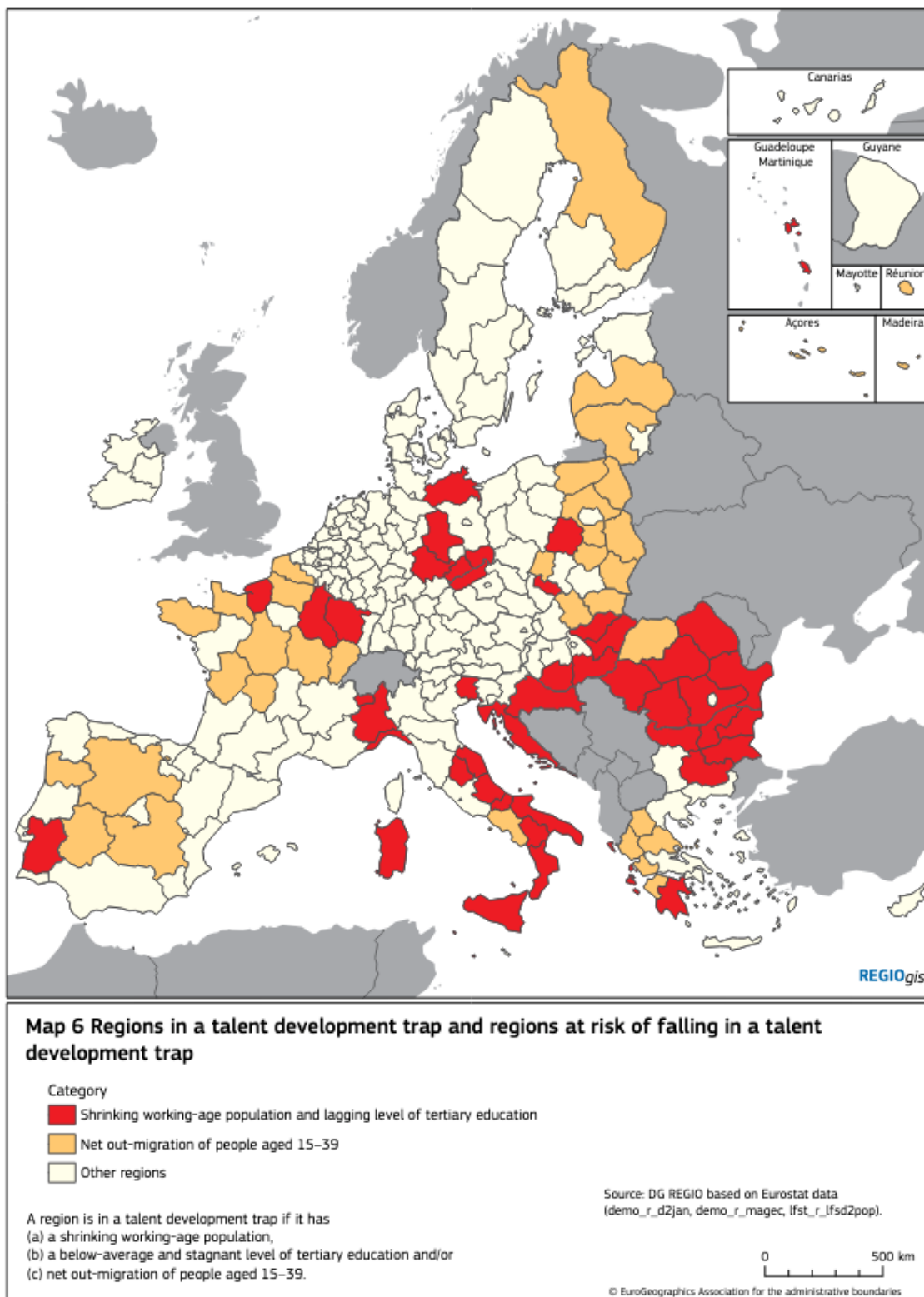
Governance. Another question remains on the extent that regional and local levels are involved in the decision making and implementation of EU competitiveness policies. Policies such as trade, competition, production and growth are decided centrally, at EU and mostly at national level. Regional authorities, beyond designing their regional innovation strategies, which may hint at possible areas of expertise for further development, do not really have a say in policy design. Regions with low competitiveness may lag behind, posing additional pressure for regional authorities to catch up and become resilient to these changes.

⁵⁴ Phillip McCann and Frank van Oort, 'Theories of agglomeration and regional economic growth: a historical review', *Handbook of Regional Growth and Development Theories*, Edward Elgar Publishing, 2019, pp. 6–23.

⁵⁵ Amalia Kouskoura et al., 'Assessing the Key Factors Measuring Regional Competitiveness', *Sustainability*, 2024.

⁵⁶ European Commission, 2024a.

Map 2.4 – Regions in a talent development trap & regions at risk of falling in a talent development trap



Source: European Commission (2024) Ninth Report on Economic, Social and Territorial Cohesion.

2.5 EU climate change policy sphere

Today and modus operandi. The EU environmental goal to be climate neutral by 2050 is operationalised by the Green Deal. This covers building adaptation and resilience, energy, agriculture, the environment and oceans, industry, transport, research and innovation. The EU has translated climate goals into law, adopting the European Climate Law in 2021, which obliges Member States to achieve the 2030 and 2050 climate goals. Other actions include the Adaptation Strategy, launched in 2013 and updated in 2021, which aims to make Europe more climate-resilient. This focuses on action at all levels of government, integrating adaptation into key sectors and policies. Additional strategies are the EU Biodiversity Strategy for 2030, the Circular Economy action plan, the Strategy for financing the transition to a sustainable economy, the Fit for 55 Package and the Farm to Fork strategy. Further action regards financing for climate action, primarily through the Next Generation EU recovery instrument, under which Member States must spend 30% on climate related projects. Projects funded through Cohesion Policy, as well as the Common Agricultural Policy also contribute to this goal.

Transformations. Although policy changes are highly dependent on the political scenery, a few ideas are presented below. A first step towards stronger climate change adaptation may be through stricter emission reduction targets, more ambitious targets with stricter limits on major industries and more control of the achievements. Stronger adaptation and resilience frameworks can be either top-down through EU strategies, or the greater involvement of local communities, civil society and the private sector in adaptation planning and implementation. Making climate change adaptation mainstream by including it in all major policies would be another way to increase the impact. EU policies related to climate change adaptation in 20 years may also focus on and be more linked to innovation and technology. This includes deploying innovative technologies for adaptation, such as nature-based solutions, smart infrastructure and advanced forecasting tools. EU policies may not only focus on climate change adaptation but also on ensuring cooperation. Current geopolitical trends point to competition rather than cooperation, which makes it difficult for collective future action on an issue that cannot be solved by the EU alone⁵⁷.

Policy adaptation. The challenge of climate change will highly influence policy development in the EU and globally. Policies are already in line with a greener EU, through the Green Deal transition. As mentioned in von der Leyen's speech⁵⁸, the Clean Industrial Deal will be prominent in policy development. Being adaptable to further crises, such as the energy crisis, will be important. Adapting policy to industrial needs, including the REPowerEU, i.e. EU's plan to phase out from Russian imported fossil fuels, but also transport, agriculture and the environment is key to ensuring the EU becomes the first climate neutral continent.

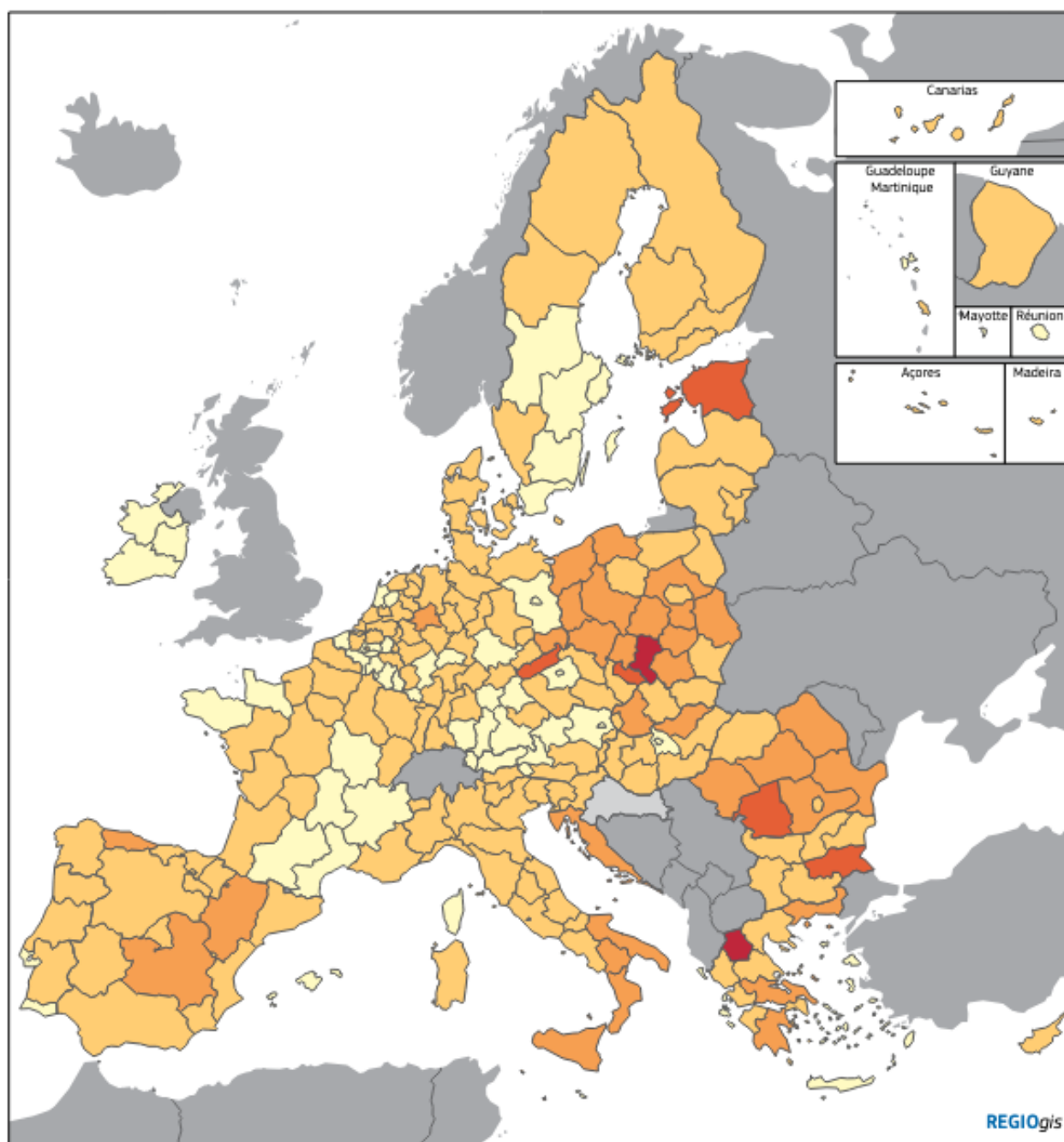
Regional inequalities. The twin transition may exacerbate regional inequalities, though the picture seems to be mixed. Some policies support climate change adaptation though impacts vary substantially across regions⁵⁹. Policies helping to mitigate these impacts are expected to be place specific, often part of Cohesion Policy – respecting territorial characteristics, needs and potential – and may help reduce asymmetric impacts of climate change. There is an increasing focus on climate change adaptation and the transition to a carbon neutral economy, a large part of which concerns the decarbonisation of regional economies. How much local and regional economies depend on polluting industries varies greatly across the EU.

⁵⁷ 'Choosing Europe's Future. Global Trends Report 2040', ESPAS, 2024.

⁵⁸ Ursula von der Leyen, 2024.

⁵⁹ 'Climate - Climate Change and Territorial Effects on Regions and Local Economies. Final Report', ESPON, 2011.

Map 2.5 – Socio-economic costs associated with green transition



Map 4.4 Socio-economic risks associated with the green transition by NUTS 2 region

Index (0 – 100)

<= 20

20 – 40

40 – 60

60 – 80

> 80

no data

Source: CINTRAN project (carbon-intensive regions in transition).

0 500 km

© EuroGeographics Association for the administrative boundaries

Source: European Commission (2024) Ninth Report on Economic, Social and Territorial Cohesion.

Also, the efforts required for decarbonisation vary across industries and regions. A rough estimate of the unequal impacts of EU decarbonisation initiatives has been conducted by the European Committee of the Regions in cooperation with ESPON⁶⁰. It shows that some regions could benefit from decarbonisation but face considerable structural challenges. Funds like the Social Climate Fund and the Just Transition Fund should ensure the most vulnerable groups have a smooth green transition.

An example of regional inequalities are the socio-economic costs of the green transition, shown in Map 2.5. This illustrates the risk of growing regional inequalities that may result from the green transition process. Most of the high-risk regions are already lagging behind the national average and will need support to meet the challenges of energy decarbonisation. At the same time, highly competitive and innovative regions tend to be better equipped for the green transition of their economies.

Other indicators that may help to understand disparities are regionalised UN Sustainability Indicators, the carbon intensity of regional economies or regional employment in fossil fuel sectors (other indicators are listed in the appendix). All of these show differences that are relevant to discussing and understanding how climate change policies affect regional disparities in the EU.

Governance. Climate change is addressed by a variety of EU policies, each with its own governance arrangements. It appears that overarching climate change policy directions and objectives are decided centrally by the UN, EU or national governments. Implementation is often left to local and regional authorities, either to implement regulatory requirements or through projects, e.g. funded by Cohesion Policy.

2.6 European Pillar of Social Rights

Today and modus operandi. About 88% of EU citizens consider a Social Europe as an important element in their lives, according to the Eurobarometer of 2021⁶¹. Challenges regard the high cost of living and low wages. In an effort to better adjust to the twin transition and build a society that focuses on people's wellbeing, the EU social policy field is closely linked to the European Pillar of Social Rights. This has three core principles, social protection and inclusion, equal opportunities as well as access to the labour market and fair working conditions. In its action plan, the European Pillar of Social Rights highlights the steps towards a more social EU and stresses the 2030 target for at least 78% of 20–64 year-olds to be in employment, at least 60% of all adults participating in training every year and the number of people at risk of poverty or social exclusion reduced by at least 15 million⁶².

Transformations. Social matters have been key to many policies. With the twin transition accelerating, ensuring a just transition remains essential. New changes and transformations may emerge including demographic changes that shape the future at a global but also at an EU level. This relates to ageing, migration and Gen Z (born around 1997 to 2012) becoming the key generation. This will not only change economic and growth paths, but also behaviour and consumption patterns across the population. Social matters may regard physical security from external threats and a challenging geopolitical situation, as well as cybersecurity threats. In addition, an increasing focus on wellbeing, instead of just on GDP growth and development may also influence society and the economy.

⁶⁰ Committee of the Regions, 2021.

⁶¹ More information can be found here: <https://europa.eu/eurobarometer/surveys/detail/3187>

⁶² 'The European Pillar of Social Rights Action Plan', European Commission, 2021.

Policy adaptation. Building a stronger social EU is also a priority for the Commission. Social fairness is key to the Commission's political guidelines⁶³, under which a new Action Plan for the Implementation of the European Pillar of Social Rights will be developed as a beacon for the social policy sphere. The housing crisis urgently needs to be addressed, with a focus on social and affordable housing as well as support for young people, developing a stronger Union with equality between social groups and a focus on food security, water and nature.

Regional inequalities. Transitions may exacerbate regional inequalities. With the EU focus on the digital and green transition, social inequalities may widen⁶⁴. The just transition is important to ensuring the twin transition is for all people and places. In this case, inequalities are linked more to people than places. Places where people have more access to education, affordable housing, equality and job opportunities face fewer social struggles compared to regions with high unemployment, slow transition pace, or are in development traps, failing to catch up economically for a long period, or have a limited population and low access to services of general interest. As outlined in the Social Progress index⁶⁵, there are considerable regional inequalities when it comes to the European Pillar of Social Rights. This is also echoed in wellbeing, quality of life and sustainable development indicators which provide useful insights into regional inequalities⁶⁶.

An example of regional inequalities is shown by the Social Progress Index (see Map 2.6). This brings together 12 components including sanitation, health, safety, housing, communications, environmental quality, freedom and choice, inclusive society and advanced education. The index shows that social inequalities vary widely, with regions in Denmark, the Netherlands, Finland and Sweden being the most advanced, and regions in Greece, Italy, most of the eastern Member States and some in Spain lagging behind. The index also highlights national importance, with most countries showing limited differences between regions.

Other indicators may help to understand regional wellbeing and quality of life indices, healthy life expectancy at birth and tolerance towards immigrants, minorities, LGBTQ+ are listed in the appendix). All of these show different differences that are relevant to discussing and understanding how social policies affect regional disparities in the EU.

Governance. The European Pillar of Social Rights is delivered through the shared political commitment and responsibility of EU institutions, national, regional and local authorities, social partners and civil society. The EU's long-term budget and the NextGenerationEU recovery instrument are key to financing social actions. In addition, the ESF is also powerful in supporting social actions, as is RRF. ERDF, the Just Transition Fund, the BREXIT Adjustment Reserve, REACT-EU, the European Globalisation Adjustment Fund, Erasmus+, the Technical Support Instrument, Horizon Europe, Invest EU, EU4Health and the Asylum, Migration and Integration Fund, all support social actions of the European Pillar of Social Rights. Alongside public resources, synergies between the funds are key to achieving the social goals⁶⁷.

⁶³ Ursula von der Leyen, 2024.

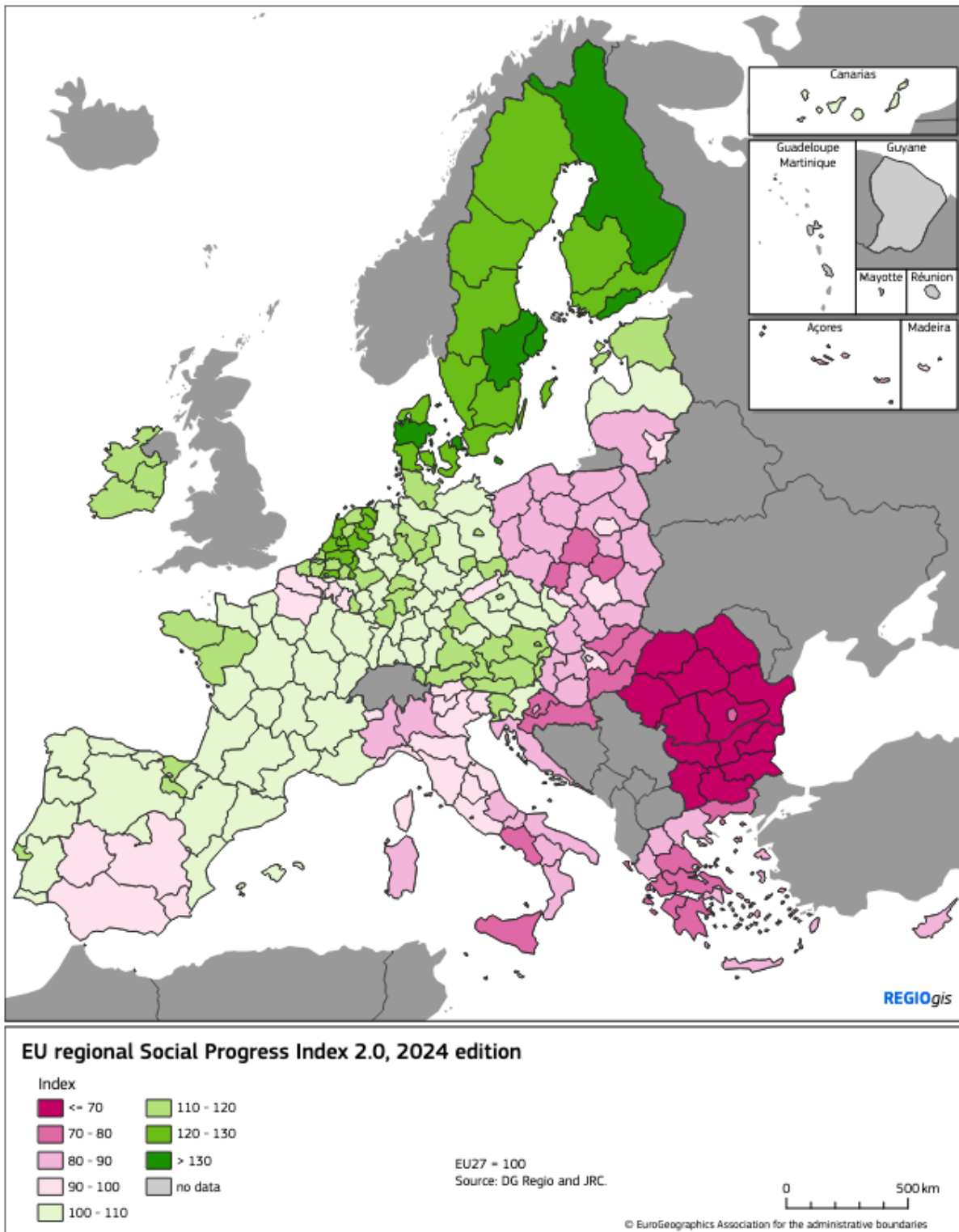
⁶⁴ European Commission, 2024a.

⁶⁵ 'The EU regional Social Progress Index 2.0: 2024 edition', European Commission, 2024.

⁶⁶ 'Cohesion Policy Benchmarks beyond GDP to Better Reflect Well-Being Standard of Living: Overview, European Committee of the Regions', European Committee of the Regions, 2021.

⁶⁷ European Commission, 2021.

Map 2.6 – EU Social Progress Index, 2024



Source: European Commission (2024) The EU regional Social Progress Index 2.0.

2.7 Combined picture on reducing regional inequalities

The above sections summarised a number of policy spheres to show how they may impact cohesion and increase or reduce inequalities. Not all of them contribute the same way and although only Cohesion Policy has the clear aim to do so, other policies affect cohesion as well⁶⁸. If cohesion or the reduction of regional inequalities is seen as a puzzle, all policies contribute with one or several pieces.

How far do policies reduce inequalities? The only EU policy with a clear objective of reducing inequalities is Cohesion Policy, which is fully in line with the cohesion spirit. This covers principles such as mutual interdependencies, equality, equity and justice, as well as cohesion objectives including economic, social and territorial cohesion, but also interpersonal cohesion. This focuses more on people and how far these are embedded in policy objectives and governance arrangements⁶⁹. All policies help develop territories in different ways but providing equal opportunities in practice is more challenging. Often, goals and challenges conflict. For instance, increased competitiveness and economic growth does not always go hand in hand with environmental protection or equal chances for all places and people.

However, the pursuit of more cohesion and less inequality should not be the responsibility of Cohesion Policy alone. All policies should contribute to more cohesion for all people and places, as outlined in the Territorial Agenda 2030⁷⁰. There is still a need for policies at EU and national levels to share this objective and take more action towards addressing disparities by working together, reinforcing each other and tailoring support to different types of territories⁷¹. To start with, adding the territorial dimension into the design of any policy could reinforce coherence and cohesion in policies.

The governance role. Governance arrangements certainly play a key role in increasing cohesion. Policies operating under shared management may reduce inequalities. This is because responsibilities and decision making are shared, increasing ownership. Other than ESIF management, policies addressed in this chapter are governed through direct management, as are most EU policies. In addition, multi-level governance plays a key role as regional and local levels can deliver policies in a more integrated way.

Which places may be affected? In addition to people and citizens, inequalities affect regions and territories. Places with critical mass for skills and infrastructure can adjust to economic and growth development and the digital transition. They may face reduced inequalities at EU level, while inter-regional inequalities may increase, in particular affecting urban-rural relations. Remote areas also seem to be more challenged, as they are often far from opportunities. Also challenged are regions in development traps, those failing to grow over time. Regional inequalities may also be seen in places highly affected by climate change. Therefore, the twin transition are accompanied by a strong just transition to ensure they take place for all.

⁶⁸ Committee of the Regions, 2021.

⁶⁹ Kai Böhme and Maria Toptsidou, 2024.

⁷⁰ 'Territorial Agenda 2030: A future for all places', Ministerial meeting of the EU under the German presidency of the Federal Ministry of the Interior, Building and Community, TA2030, 2020, www.territorialagenda.eu.

⁷¹ European Commission, 2024a.

3 EU actions to reduce regional inequalities

Key findings

- The EU can tackle regional inequalities through financial and non-financial actions, with cohesion being understood as mutual interdependence, equality, equity and justice. These actions should balance geographical and thematic criteria to maximise impact.
- Financial support, such as that provided by Cohesion Policy, is essential to promoting cohesion, but non-financial tools like regulations, policy coordination and capacity building can also be crucial to reducing inequalities across regions.
- Effective governance, including improvements in the quality of government and multi-level governance, is key to reducing regional inequalities. Coordination across levels of government and sectors is necessary to enhance cohesion.
- The evolution of EU policies, particularly Cohesion Policy, will be influenced by factors such as the next multi-annual financial framework (MFF), fund integration and the balance between sectoral and geographic approaches.
- Increasing competitiveness and potential EU enlargement are expected to shape future EU policies, including Cohesion Policy. However, significant changes in policy orientation due to enlargement are not anticipated until closer to 2034.

This chapter will briefly set the framework for possible actions to reduce regional inequalities, assumptions about future EU policies and the overall scenario logic. This will set the scene for the upcoming chapters 4 to 6, where we present three scenarios on the interplay between EU policies and how this may affect regional inequalities, building on the review of policies in chapter 2.

Reducing inequalities across territories is an overarching objective of the EU. It underpins integration and is laid down as an aim of the EU in Art. 3 of the TEU which says that the EU shall promote economic, social and territorial cohesion, and solidarity among Member States.

Cohesion Policy pursues the EU cohesion objective and address inequalities. However, cohesion and the reduction of imbalances and inequalities cannot be addressed by one policy single handed. All policies directly or indirectly affect economic, social and territorial inequalities.

Inequalities may be economic, social, or access to opportunities. There may be different actions and ways the EU can tackle or reduce these, ranging from a geographic or thematic financial focus, to soft policies with governance and legislation.

3.1 Different types of possible actions

The EU may employ different ways to reduce inequalities and increase cohesion. These may not always be linked to Cohesion Policy, but are also found in other policies or initiatives. In any case there are different philosophies, or different approaches to this, depending always on the cohesion perspective.

Reducing regional inequalities means increasing cohesion. However, an important question is how we understand cohesion. This is a broad concept which may differ across policies or be partially addressed by some policies. The CoR study on 'cohesion as a value'⁷² looked into policies to identify their link to cohesion. It highlights that most policies, including those addressed in this report, understand cohesion as a means of mutual interdependencies and 'togetherness', recognised in the

⁷² 'Cohesion as an overall value of the European Union', Committee of the Regions, 2021.

interplay between weaker and wealthier regions in the EU. Wealth depends on this interplay. Cohesion may also be understood as equality, namely equal growth opportunities. This is addressed also in the policies observed in chapter 2, which are equally available for all regions. Another understanding of cohesion is equity, which puts a stronger focus on not leaving anyone behind and increasing solidarity. This is more evident in the European Pillar of Social Rights and Cohesion Policy. Lastly, one way to stronger cohesion and less inequality is by increasing the sense of justice through more equal development opportunities⁷³.

Financial ways to increase cohesion. Given the different understandings, financial and non-financial actions may increase cohesion. Financial support is often key to helping regions catch up and increase social and territorial cohesion. The 'redistribution' approach aiming to support places lagging behind by spurring their development, is followed by Cohesion Policy and others. This has already contributed to more cohesion, though there are also some doubts about the effects as outlined in section 2.1. The geography and amount of funding is important.

Policies may be place-based or spatially blind⁷⁴. Place-based policies apply a spatially targeted approach to financial support and Cohesion Policy follows criteria such as GDP per capita. What the funding can be used for may vary spatially, though overall it is a policy for all regions and people. Spatially blind policies have no spatial criteria for the allocation of funding but follow sector criteria, still they have spatial effects. For instance, research and innovation funding is often directed to places with high level research institutes, while competitiveness initiatives may favour places with a critical mass. Therefore, any debate about EU actions to reducing regional inequalities, needs to address the balances and trade-offs between distributing financial support according to geographical and thematic criteria.

Non-financial ways to increase cohesion. Financial support and incentives are only one dimension of EU policy making. Other means may include directives and regulations, coordination of Member State policies (e.g. in the European Semester or Open Method of Coordination), policy frameworks, strategies, guidelines, capacity building and peer-learning. These non-financial means are essential for the EU to achieve its policy objectives, promote integration and ensure consistency across its Member States. Mostly, these non-financial means are spatially blind, applying to all places in the EU. However, due to the considerable territorial diversity, the relevance, importance and effects of each non-financial measure differs from place to place. This means non-financial policy actions can increase or reduce regional inequalities. Therefore, the CoR argues for all EU policies to incorporate cohesion as an overarching value or spirit, embracing interpersonal, digital and ecological cohesion, and playing their part in increasing cohesion within their policy scope⁷⁵. Another option is establishing a stronger framework that brings new elements to increase cohesion. This could capitalise on the Letta report and its proposal of a 'freedom to stay'⁷⁶ which implies creating the circumstances for increased cohesion and better opportunities for people to reduce brain drain. Any debate about EU actions to reduce regional inequalities needs to look beyond financial support and consider the role of non-financial EU policies.

Importance of governance and coordination. Governance plays a key role in reducing inequalities and needs to be taken into account in this discussion. Growth theories that accounted for economic differences relatively well two decades ago are less capable of doing so now. A focus is now on the role of institutions in general and government quality in particular, especially the role of institutional

⁷³ Kai Böhme and Maria Toptsidou, 2024.

⁷⁴ Fabrizio Barca, 'An Agenda for a reformed Cohesion Policy. A place-based approach to meeting European Union challenges and expectations.' 2009.

⁷⁵ Committee of the Regions, 2021.

⁷⁶ Enrico Letta, 2024.

change in regional development⁷⁷. Institutions matter as government quality is a consistent predictor of economic growth and resilience. This implies that (even relative) improvements in the quality of government are powerful drivers of regional economic development, especially in low-growth regions. Acknowledging regional diversity, these improvements need to be embedded in a place-based and multi-level governance approach⁷⁸. Multi-level governance, in particular for policies with shared management, plays a key role in increasing cohesion, as coordination and cooperation across sectors and governmental levels are promoted. Regional and local authorities can and should be involved in decision and policy making. Consequently, any debate about EU actions to reduce regional inequalities needs to look into how governance, government quality and policy coordination affect inequalities⁷⁹.

3.2 Assumptions about the future of EU policies

The three policy scenarios will be based on assumptions ranging from financial planning and means available, to the future of Cohesion Policy, external factors and other policies.

MFF 2028–2034. Each MFF plays a key role in how EU policies are shaped, as the budget allocation sets the direction of policies. At the moment it is too early to assess the shape of the 2028–2034 MFF.

Nevertheless, there may be a late start to budget negotiations and discussions on priorities, which would hinder continuation and a dynamic start. Earlier budget agreements included discussions taking EU added value into account, instead of following the narrowmindedness of net-position thinking. Other discussions floated around further simplification, modernisation and, as already mentioned, the timing of the process. There are discussions about the next EU budget being more policy- rather than programme-based, simpler with fewer programmes and a plan for each country focusing on joint priorities including cohesion as well as more impactful by increasing the leverage of national, private and institutional financing⁸⁰. As the number of EU policies and objectives increases, the budget may need to cover more topics and priorities, e.g. defence and security as well as enlargement. These changes may put the EU into a new era and influence its objectives and priorities⁸¹. The MFF may shift the direction of Cohesion Policy and others. An example is NextGenerationEU, which changed the role of Cohesion Policy by affecting the competences of Member States and the EU through the subsidiarity principle, with the EU's central power broadening⁸². Against this background, the scenarios assume the size of the next MFF will remain roughly at the level of the current one. However, it may introduce new objectives and budget lines, increasing competition for funding between policy areas and it may bundle budget lines and policies, increasing policy coordination.

Future nature of Cohesion Policy. Cohesion Policy will remain the key EU policy to reduce inequalities and ensure balanced development for all EU citizens and territories. The evolution of Cohesion Policy can take different paths. One development could be the further integration of funds given budget constraints, which may intensify soft policy measures and 'doing more with less', through streamlining the funding processes and improving effectiveness. Another possibility may be a more sectoral approach, where the focus of funding will be on key sectoral policies, following a

⁷⁷ Andrés Rodríguez-Pose and Tobias Ketterer, 'Institutional change and the development of lagging regions in Europe', *Regional Studies*, 2020, pp. 974–986.

⁷⁸ European Commission, 2024b.

⁷⁹ Kai Böhme and Maria Toptsidou, 2024.

⁸⁰ Ursula von der Leyen, 2024.

⁸¹ Daniel Fiott et al., 'Looking at the EU Multiannual Financial Framework 2021–2027', *Intereconomics*, 2018, p. 296.

⁸² 'The future of EU Cohesion', ZEW, 2024.

more growth-oriented approach. Both options may have positive and negative impacts, and involve changes in governance and central or shared management. Already for the 2021–2027 programming period, there were discussions on redefining the role of Cohesion Policy. The policy often feels under threat, already with the Sapir report of 2003⁸³ and the ‘Lisbonisation’ efforts towards ambitious goals for increasing competitiveness, economic growth and innovation, as well as financial instrument uptake. Yet today, in the aftermath of COVID-19 and the energy crisis after the Russian invasion in Ukraine, the role of Cohesion Policy has substantially changed, to also being a vehicle for addressing crises, while at the same time delivering wider EU objectives⁸⁴. The NextGenerationEU programme and its key component, the RRF, have resulted in debt that needs to be repaid. At the same time, the RRF is centrally managed, putting aside the territorial dimension. In addition, the upcoming EU Social Climate Fund and its substantial budget, which would also be managed centrally, is expected to substantially shape the post 2027 budget. Another important element is Cohesion Policy as an emergency vehicle. Cohesion Policy responded promptly and adequately to the pandemic and energy crises, although the question remains whether this is what it should be doing in the future, or should it be a more long-term, strategic policy for regional development⁸⁵. A further element to consider is which areas should be eligible for funding, only less developed ones, or regions in development traps, or all regions but with different eligibility criteria. Cohesion, however, should also be reflected in the Single Market, echoing the Letta report. As mentioned in an earlier chapter, this means a stronger Single Market with reinforced Cohesion Policy and adequate conditions to avoid a brain drain. Lastly, soft measures, like mainstreaming and capacity building may also play a big part. In addition, the future of Interreg and territorial cooperation will be crucial for integration and to maximise EU added value⁸⁶ as Cohesion Policy empowers local players and knowledge exchange.

Against this background, the scenarios assume that Cohesion Policy will remain but will adapt. This concerns both the delivery system – which will play less of a role in the scenarios – and relationships to other policies with policy coordination and funding balanced between sector policy aims and geographical approaches.

Other policies interplay. The interrelation of Cohesion Policy with other policies will also be crucial and considered in the scenario development, as part of the interplay between them. The priorities of the European Commission for the long-term future highlights that several external, global factors are about to shape the future of the EU⁸⁷. These include geopolitical tensions, growing instability, as well as the dramatic effects of climate change. To address these challenges, a strong competitive social market economy will be a driving force to achieve EU ambitions and also cope with today’s hypercompetitive world. Even before the Draghi report on the future of EU competitiveness, the strategic agenda highlighted the need for increased EU competitiveness to improve citizens’ wellbeing and economic and social progress⁸⁸. In addition, the expected enlargement will be pivotal to the future of Cohesion Policy, as well as cohesion and economic and social inequalities in general. New Member States may change the priorities of the EU, as well as the balance and eligibility of funds, possibly reshaping Cohesion Policy, its funds and funding distribution. However, phased enlargements are expected, probably starting with Western Balkan countries. This is not expected to substantially change the orientation and spending of EU policies. More substantial changes would

⁸³ André Sapir et al., ‘An Agenda for a growing Europe. Making the EU economic system deliver.’ 2003.

⁸⁴ Serafin Pazos-Vidal, ‘Last chance saloon for EU Cohesion Policy post 2027. AEIDL Policy Brief.’ 2024.

⁸⁵ Francesco Molica, ‘Cohesion Policy as an emergency-response instrument: A boon or a bane?’, CPMR Reflection Paper, 2022.

⁸⁶ Thomas Schwab, ‘Quo vadis, Cohesion Policy? European Regional Development at a Crossroads. Bertelsmann Stiftung Policy Paper.’ 2024.

⁸⁷ ‘Strategic Agenda 2024–2029’, European Council, 2024.

⁸⁸ Ibid.

happen with the possible accession of Ukraine. Against this background, the scenarios assume that competitiveness will be more prominent in future EU policies which may affect the thematic orientation of Cohesion Policy itself as well as coordination with other policies. Furthermore, the scenarios assume that any enlargements will not have substantial effects on Cohesion Policy before 2034.

3.3 Scenario logic

The scenario logic is the methodology used for drafting the three scenarios. Although the future is unpredictable and unprecedented incidents may take place, scenarios help us see different pathways of possible futures. Scenarios are plausible descriptions of how the future might develop. They are based on coherent and internally consistent assumptions (scenario logic) about key relationships and driving forces. Scenario logic development is the process where trends, insights and sources come together in a synthetic picture to build a story. In general, scenarios raise awareness about possible future developments and their territorial dimension, helping key players to understand them and recognise how their decisions relate. Scenarios support thinking out of the box and can bring added value to dialogue on policies affecting territorial development. Hence, the scenarios will contribute to constructing and analysing various plausible future pathways to managing uncertainty⁸⁹.

At the heart of the scenario logic are driving forces that may shape the future and uncertainties that may change the outcome, such as new regulations and global developments. The three scenarios are closely linked to how different EU policies and their interrelations may play out in the future.

The scenarios explore the potential added value of the EU in addressing regional inequalities through its policies. The key drivers are the policies in place and how they may be influenced or evolve. Each scenario has assumptions, in terms of the MFF allocation focus, the relation of different EU policies and funds as well as the underlying rationale of policy efficiency and effectiveness. Each scenario is described in terms of integrating Cohesion Policy funds, integration with other EU and national policies, thematic focus, eligibility criteria, the role and shape of territorial cooperation and the management approach. After that, expected impacts with a focus on regional inequalities are assessed, taking a look at implications and effects on different types of territories. A comparative discussion of the scenarios follows in chapter 7.

The scenarios explore three distinct pathways of EU policies. These include a continuity scenario, i.e. policies continuing the way they are today. This is a baseline or business as usual scenario. This is followed by a scenario where policies are more integrated with each other. The last scenario focuses on a more fragmented approach, with more emphasis on sector policies. As mentioned earlier, scenarios raise awareness and provide food for thought to inspire policy makers for sound decisions. All three scenarios come with their own positive and negative elements, their own opportunities and challenges, which often interplay and are linked to each other. Therefore, it is often challenging to disentangle selected elements, as they are dependent on several developments. Each positive or negative element is seen through the lens of the reader's values and is addressed through the political priorities that are on the table.

⁸⁹ Kai Böhme and Maria Toptsidou, 'What if there had been a spatial vision for Europe?', *A new beginning? Spatial planning and research in Europe between 1945 and 1975*, Campus Verlag, 2022, pp. 467–485.

4 Scenario 1 – Continuity scenario

Key findings

- The scenario suggests that Cohesion Policy would largely continue with its current structure and shared management system. However, it would face new challenges and pressures, such as a stronger focus on global competitiveness and new thematic priorities, as well as continuation of the green and digital transition.
- While Cohesion Policy would continue to contribute to EU objectives, a lack of integration with other sectoral policies might exacerbate regional inequalities, particularly in regions unable to keep up with transitions towards competitiveness and innovation.
- The focus on competitiveness and economic growth may benefit developed regions, while less developed, development trapped or rural areas could struggle, potentially widening regional inequalities. Environmental and social policies, although emphasised, might not be enough to balance these disparities without more coherent integration across policies.
- The continuation of current policies without significant adjustments could lead to greater territorial and social fragmentation within the EU, potentially fuelling Euroscepticism and political fragmentation, which could undermine European integration and unity.

The first scenario is about the continuation of the current set up, where Cohesion Policy continues to evolve along the lines we know it today, including the current funds and shared management. Cohesion Policy would be targeted at all regions, while sector policies would continue to play a key role in the EU. Nevertheless, some thematic priorities and overarching goals may be expected to change, as even in the continuity scenario small changes can still take place, without changing the overall picture. A quick summary of the scenario is provided in Figure 4.1.

Figure 4.1 – Continuity scenario – Overview scenario 1

Source: Spatial Foresight.

4.1 Scenario assumptions

The scenario has been developed based on the following assumptions:

MFF focus. The MFF sets the scene for the EU budget and funding for priorities. It is expected to have a similar structure as today, with funds allocated for Cohesion Policy remaining largely intact. This means the future EU budget can be pictured as three pots of fairly equal size, e.g. Cohesion Policy, Common Agricultural Policy and all other EU policies, including those discussed earlier in this report.

Nevertheless, priorities may change and the funding allocations could shift accordingly. Competitiveness and STEP, which is a spatially blind policy, could dominate. The next MFF will require enhanced effectiveness, exploring the link between investments and reforms, and increasing coordination between policies at different levels. Defence and security may take a more prominent role in policy making, in response to emerging geopolitical threats⁹⁰. This may tighten the budget for other priorities. As a result, regions may need to think smart and innovate with their existing resources to get most out of what is available. This may pose challenges to cohesion objectives, as some lagging regions may be disadvantaged by regional inequalities. The future MFF is also likely to bring novelties. One could be a rule-of-law conditionality, aiming to ensure that EU funds are allocated to Member States that respect EU fundamental values. Institutional quality may be enhanced, to ensure effective public administration and fair use of the funds⁹¹.

Integration of EU policies. Cohesion Policy stands at a pivotal juncture, where new priorities may require adjusting to a global landscape and future enlargement, with many people speaking about redefining its identity to focus on competitiveness and the twin transition⁹². All this would be managed in the context of Cohesion Policy and the funds (ERDF, ESF+, CF and JTF) as we know them today.

Cohesion Policy would continue to have long-term structural objectives such as supporting regional economies, economic resilience, technological adaptation and upskilling⁹³. In addition, remaining flexible and adjustable would be key to its future. Addressing administrative barriers and investing in strengthening administrative capacity could support policy delivery.

Cohesion Policy would continue its dual objectives of working towards cohesion while contributing to other EU policies objectives including the twin green and digital transition, competitiveness and innovation. Integration with other policies may be a consideration, as it can leverage synergies with them to maximise cohesion, as long as sector policies include cohesion in their implementation⁹⁴. However, there may be some tension to balance sustainability and competitiveness.

Stronger alignment with national policies would promote cohesion, going beyond Cohesion Policy having sole responsibility for this. Including the territorial dimension in every sector policy should be recommended.

Underlying rationale of policy efficiency and effectiveness. The approach to efficiency and effectiveness would continue to focus on the delivery of EU policy objectives. This means each EU policy and its objectives would be pursued and assessed for effectiveness separately. Additional EU policies and objectives would imply a further amplification of parallel policy streams each looking at its own effectiveness. Cohesion Policy should contribute to a wide range of EU policy objectives.

⁹⁰ Ursula von der Leyen, 2024.

⁹¹ ZEW, 2024.

⁹² European Commission, 2024a.

⁹³ Ibid.

⁹⁴ Thomas Schwab, 2024.

While Cohesion Policy continues as today, territoriality remains a priority. More efforts would be needed for sectoral policies to add the territorial element in their design in the future.

4.2 Continuity scenario

Following the above assumptions, Cohesion Policy should continue its present approach to policy integration, thematic focus, eligibility, etc.

Integration of Cohesion Policy funds. ERDF, ESF+, CF and JTF continue as separate funds bound together by common provisions and the possibility of multi-fund programmes. They are distinct funds with a substantial budget to promote economic, social and territorial cohesion. Some of the shortcomings of the current system would remain. Most notably, rural development would remain under the Common Agricultural Policy, which is not part of the common provisions for Cohesion Policy.

Integration with other EU policies. Cohesion Policy would continue to contribute to other EU policy objectives. This, however, would be one-sided if the other policies do not step up their efforts to contribute to cohesion or at least do no harm to cohesion. This means they would not help reduce regional inequalities in addition to supporting growth and their own policy objectives.

Integration with national policies. National policies are essential to reducing regional inequalities⁹⁵. However, the alignment of national policies with EU cohesion objectives would remain patchy. Indeed, the integration of Cohesion Policy with national policies may be seen the other way around with Cohesion Policy as an important supplement to national policies. Especially with capacity building, Cohesion Policy would continue and increase its efforts towards bringing together national authorities from across the EU to increase their administrative power and experience.

Thematic focus. Following broader EU policy objectives, the thematic focus of Cohesion Policy should broaden in the future. There is more emphasis on strengthening cohesion and growth policies as part of increasing competitiveness across the Union. This would emphasise a clear link between reform and investment, mobilising resources to build infrastructure and services that enable communities to thrive. The thematic focus could include public services, private sector activity, education, skills, transport and digital connectivity which are essential components of regional development and competitiveness. In addition, equality for all, housing, EU values, migration, enlargement, defence and security would be key in the thematic focus of Cohesion Policy programmes⁹⁶.

Allocation of funding and eligibility. In this scenario all EU regions remain eligible for Cohesion Policy, irrespective of their economic level. The current formula for allocating funding according to GDP and differentiating between less developed (GDP per capita < 75% EU-27 average), transition (GDP per capita between 75% and 100% EU-27 average) and more developed regions (GDP per capita > 100% EU-27 average) would largely remain in place. Furthermore, Cohesion Policy would continue its support to the least benefitted areas, places where private investment is low, market failures are high and places at risk of further decline. Discussions about adjusting the typology of regions to allocate funding that better reflects development dynamics and traps would continue⁹⁷.

Role and shape of territorial cooperation. Collaboration across regions is pivotal when fragmentation is increasing. Territorial cooperation is a cornerstone for Cohesion Policy and cohesion now and in the future, enhancing impact and leveraging on collective power and strengths.

⁹⁵ European Commission, 2024a.

⁹⁶ Ursula von der Leyen, 2024.

⁹⁷ European Commission, 2024b.

Territorial cooperation programmes would continue to support the development of territories, especially at cross-border and transnational levels, but also enhance the effectiveness of lower-level initiatives.

Management approach. Cohesion Policy would continue to be delivered under shared management, with shared responsibility of the Commission and Member States. As is the case now, application of the shared management approach would continue to vary across Member States. Still, effectively addressing regional inequalities requires the involvement of local and regional stakeholders in the design and implementation of Cohesion Policy programmes and the application of the European Code of Conduct on Partnership⁹⁸. Still, in some countries, multi-level governance would be even more enhanced, to ensure regional and local authorities are key players in the design and implementation of operational programmes. Other countries would continue to focus increasingly on national rather than regional programmes.

4.3 Scenario impacts – manifestation of the continuity scenario

As the continuation scenario unfolds, a continuation of Cohesion Policy and lack of EU policy integration would at best see mixed success in addressing regional inequalities. Indeed, the risk of development traps and geographies of discontent may increase, driving apart people and places in the EU⁹⁹.

Economic implications. Increasing focus on competitiveness for other EU policies and Cohesion Policy and continued independent pursuit of policy objectives would leave their mark on local and regional development in the EU. A focus on STEP may dominate in the future, which would also influence the scope and focus of Cohesion Policy as it could diverge from its existing priorities.

EU competitiveness, industrial and innovation policy spheres would boost players in research and innovation, advancing regions with a good chance to increase their position in global competition. Cohesion Policy would take up the respective policy objectives as thematic priorities and increase its support to high-end technological research institutes, advanced technologies and industries. These should become leading players in the field, but also increase the workforce and attract talented people.

Targeting support to less advantaged regions or regions that are unable to cope with this transition needs to be considered, to avoid exacerbating regional disparity.

Furthermore, focusing Cohesion Policy on less developed, transition and more developed regions, rather than on dynamics and opportunities, may continue to create trapped regions, as regions cannot build up new potential¹⁰⁰.

Continuing Cohesion Policy with a stronger twist on global competitiveness, and more emphasis of other EU policies on economic fields which are not integrated with Cohesion Policy, would risk increasing regional inequalities. It may amplify criticism that EU policies barely affect low-income households in supported regions, fail to reduce regional and social inequalities, and often target the wrong type of inequality, focusing on large NUTS2 regions which have very big and different intra-regional realities, instead of smaller regions or regions most in need. This results in prosperous local

⁹⁸ See https://ec.europa.eu/regional_policy/policy/what/glossary/european-code-of-conduct_ga

⁹⁹ Andrés Rodríguez-Pose, Lewis Dijkstra and Hugo Poelman, 2023.

¹⁰⁰ European Commission, 2024b.

necks in deprived regions¹⁰¹. Furthermore, the risk of exacerbating geographies of discontent may lead to Euroscepticism and development traps¹⁰².

Environmental implications. For the environmental consequences, a focus on the Green Deal and the additional aims of a Clean Industrial Deal¹⁰³ and clean energy may dominate projects. Utilising innovation for further green investments, as well as investments to address climate change consequences, may result in more sustainable and resilient territories, better ecosystem services and improved wellbeing. This would make regions and places in the EU more liveable and more attractive, not only for people to live and work, but also for tourism and recreation. The full green transition may take time, as environmental and climate change issues are recurrent, requiring coordination and planning. Cohesion Policy would be key to mediating risks and possible negative externalities.

There would be asymmetric impacts on regional inequalities, as climate change issues continue to be approached independently by different policies and affect regions in different ways. Some focus on the shift to zero carbon industry, some on environmental concerns e.g. biodiversity and coping capacity, and others on regional mitigation and adaptation measures. Climate change impacts as well as measures and potential to transition to a green economy vary substantially across regions¹⁰⁴. If this is not addressed in a coherent way through coordinated sector and regional policies, transitions could increase regional inequalities. Instruments such as the Just Transition Fund with an emphasis on places which face more transition challenges than others, would remain exceptions, and insufficient.

On the positive side, existing policy approaches may help reduce regional inequalities for the state of environment and pollution and increase preparedness for climate change impacts in all regions.

Societal implications. Beyond the competitiveness focus, the social focus may be stronger in the future. Following the speech of the President of the Commission¹⁰⁵, a strong social element should prevail. This regards affordable housing, equality of all social groups, education and continuous training and upskilling to enhance an inclusive society. This approach would address social interpersonal inequalities, but also regional inequalities. Investing in the social fabric may differentiate the economic profile of less competitive or less developed regions, creating jobs and driving economic activity. Cohesion Policy may also play a pivotal role in ensuring that services of general interest are accessible, marginalised groups empowered, community networks stronger, and as an integrating policy for all people and places. Ensuring a decent living, a proper education and upskilling, equality between people, employment and quality of life would address core problems of social inequality. Although there may be a long way to go, any step towards this is vital.

A stronger emphasis on a social EU may help reduce regional inequalities in the current format of policy integration. For Cohesion Policy, the criticism that it barely affects low-income households in supported regions¹⁰⁶ would remain. Addressing more social issues punctually may also not be enough to address growing geographies of discontent¹⁰⁷.

Territorial implications. In this scenario, territorial implications would vary significantly across the EU. To start with, most developed regions and regions in transition should be better placed to benefit from the new priorities. These regions would attract foreign investors, high-tech specialists

¹⁰¹ Nils Redeker, Daniel Bischof and Lang Valentin, 2024.

¹⁰² Andrés Rodríguez-Pose, Lewis Dijkstra and Hugo Poelman, 2023.

¹⁰³ Ursula von der Leyen, 2024.

¹⁰⁴ ESPON, 2011.

¹⁰⁵ Ursula von der Leyen, 2024.

¹⁰⁶ Nils Redeker, Daniel Bischof and Lang Valentin, 2024.

¹⁰⁷ Andrés Rodríguez-Pose, Lewis Dijkstra and Hugo Poelman, 2023.

and industries and drive overall growth. Places with well-known universities and research centres would also be competitive. These may be capital regions or urban areas with high specialisation.

Transition regions and development trapped regions may not be able to catch up as this requires more fullhearted focus on their niches and comparative advantages, investing in fields with prospects, in talent and in attracting new people from other regions, countries or continents.

Rural and remote areas, as well as less developed regions may face more challenges, if it is more difficult for them to catch up or even leapfrog to the twin transition opportunities, or opportunities arising from new themes. Cohesion Policy may need to invest further in bridging existing gaps, e.g. in connectivity, smart regional specialisation and improved skills and training so everyone can benefit from the changes. Failing to do so, could continue or even exacerbate regional inequalities.

Other types of territories, such as islands or coastal regions may benefit from clean and renewable energy opportunities with increased economic diversification. They may also benefit from sustainable tourism, not only supporting economic development but also preserving their natural environment.

Territories which face difficulties in adjusting to the new realities risk falling behind and needing continuous support. Without a broad notion of cohesion and better integration of regional and sectoral policies, they risk continued difficulties.

Implications for European integration. Spatially-blind EU policies risk increasing regional inequalities, with more territorial and social fragmentation. This may lead to places losing their potential and stagnating, unable to cope with the changes. Many regions may risk being left behind, neglected and with no voice in the EU project. At the same time, socio-economic disparities may put European unity at risk. As a consequence, populist movements and feelings may increase, fuelling Euroscepticism and anti-EU movements that increase political fragmentation. Disparities may increase within Member States and even escalate to the EU level. Euroscepticism may also challenge cooperation between Member States in the long run, even on economic or trade matters, causing a reverse growth effect, weakening the EU's global standing.

Table 4.1 – Implications of Scenario 1 – Continuity scenario

	Scenario 1 – Continuity scenario
Economic implications	<p>Increasing emphasis on competitiveness, industrial and innovation policy spheres would benefit advanced regions and increase their global position. Cohesion Policy would prioritise its support to high-end technological institutes and industries and increase talent attraction.</p> <p>A strong focus on these policies would increase regional inequalities, especially in less developed areas. Higher risk of development traps, with prosperous areas within deprived regions, increasing regional and intra-regional inequalities.</p>
Environmental implications	<p>A focus on the Green Deal implementation, as well as new policies like the Clean Industrial Deal, together with support from Cohesion Policy would promote sustainability and resilience across the EU, enhancing ecosystem services, improving wellbeing and making EU regions more attractive.</p> <p>Impacts on regional inequalities may be asymmetric, as approaches to climate change mitigation may differ with different consequences if not coordinated effectively. This means that some regions may transition easier or not at all to a greener economy.</p>
Societal implications	<p>A focus on the social fabric and social inclusion, encompassing affordable housing, education and upskilling can reduce interpersonal and regional inequalities and empower marginalised groups, enhance access to services and improve the quality of life in all types of regions.</p> <p>Cohesion Policy is not enough to tackle deeper social disparities and social exclusion.</p>
Territorial implications	<p>Developed regions and those in transition may benefit from the new priorities and new policy focus. This regards in particular urban centres, places with research centres, innovation hubs, etc.</p> <p>More challenges may arise for less developed regions, like rural, remote, less developed ones to keep up with the others, as they may struggle with lack of connectivity, skills or specialisations. These may exacerbate regional inequalities across the EU.</p>
Implications on EU integration	<p>As long as EU policies other than EU Cohesion Policy fail to reduce or fail to contribute to reducing regional inequalities, territorial and social fragmentation may increase, with regions left behind stagnating, losing potential or having increased socio-economic divides.</p> <p>Growing disparities often fuel discontent. This may increase fragmentation and weaken EU unity, which in the long run may affect economic growth and the EU's global position.</p>
Extent regional inequalities are addressed	<p>In this scenario regional inequalities may persist, as long as no coordinated effort is in place for all territories. Policy efforts may be linked to eventually reducing inequalities, without being able to fully achieve this.</p>

Source: Spatial Foresight.

The continuity scenario is a balanced scenario with pros and cons. Inequalities risk continuing, despite actions to prevent or alleviate them. However, this would be different for different territories, as some may benefit from the policy developments, but others not. Therefore, any positive or negative aspects are seen through the lens of the reader's values.

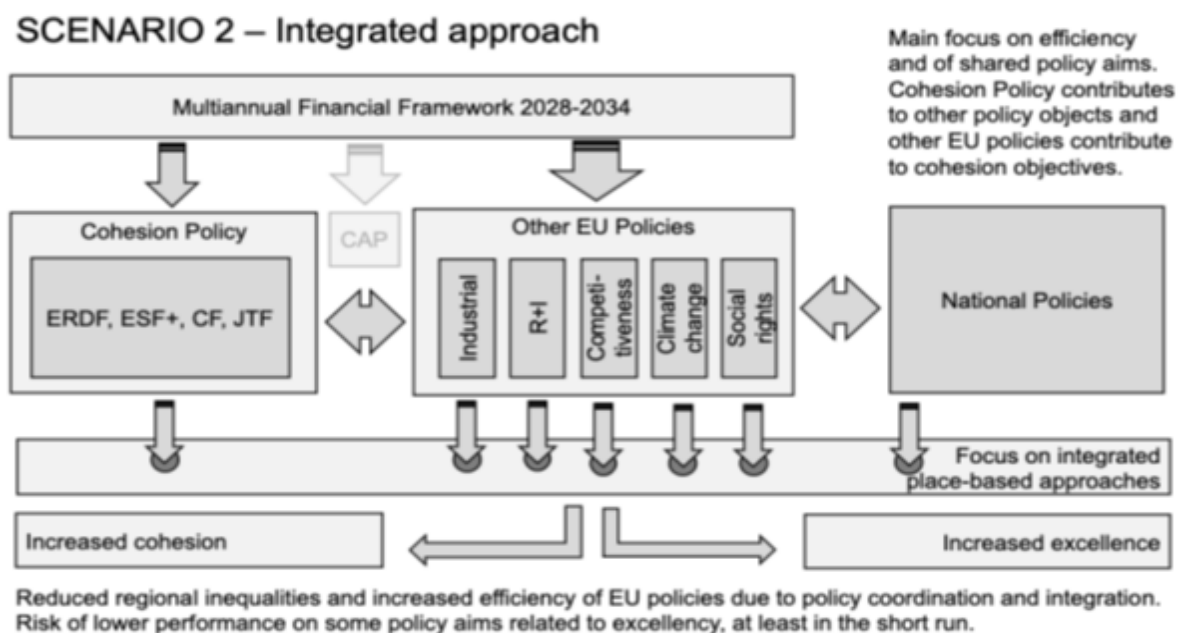
5 Scenario 2 – Integrated approach

Key findings

- The integrated approach scenario emphasises the need for stronger coordination and integration of Cohesion Policy with other EU policies to maximise synergies and complementarities. This should create a unified strategic framework that aligns policy objectives, enhancing policy effectiveness.
- The future MFF in this scenario would prioritise an integrated approach, merging Cohesion Policy funds and aligning them with other sectoral policies. This would streamline fund management, improve efficiency and ensure that all policies contribute to reducing regional inequality.
- While the integrated approach aims to reduce regional inequality, it must carefully balance the need for global competitiveness with cohesion. The success of this approach hinges on using place-based strategies to enhance both competitiveness and cohesion across all regions.
- Integrated policies are expected to have diverse territorial impacts, benefiting regions with existing infrastructure and skilled personnel while posing challenges for less developed or remote areas. Cohesion Policy will play a crucial role in managing these impacts, ensuring that all regions can benefit from EU development initiatives.
- While the integrated approach seeks to balance competitiveness and cohesion, there is a risk that focusing too much on immediate economic gains could undermine long-term regional development. Careful management is needed to ensure the benefits of competitiveness are widely shared across all regions.

This scenario focuses on an integrated approach of Cohesion Policy and other EU policies. Cohesion Policy would move towards stronger integration and possibly even merge the current funds. At the same time coordinating EU policies, especially with Cohesion Policy would be strengthened to make better use of complementarities and synergies. A quick summary is provided in Figure 5.1.

Figure 5.1 – Integrated approach – Overview scenario 2



Source: Spatial Foresight.

5.1 Scenario assumptions

The scenario is based on the following assumptions:

MFF focus. It assumed the future MFF prioritises an integrated approach to funding. Following von der Leyen's call for simplification, there would be fewer programmes and a plan for each country linking EU investments with reforms as well as national and private funding¹⁰⁸. In an ideal case such a unified approach could bring all policies under a common framework, sharing one large fund portfolio, streamlining allocation and management, and later on the evaluation of these resources.

Such an integrated approach may foster collaboration between EU policies and possibly reallocate budget from Cohesion Policy to sector policies. Budgets linked to sector specific thematic objectives of Cohesion Policy may be shifted to the respective policy.

Integration of EU policies. This scenario emphasises the better integration and coordination of EU policies. At EU level this implies better coordination of objectives and thorough impact assessments of all policies. These assessments look at the way policies interplay and contribute to a wide range of EU objectives. Particular attention is given to TIAs scrutinising whether policies contribute to reducing regional inequalities.

Increasing coordination of policies at all levels would enable complementarities and synergies across a wide range of policies, including those addressed in chapter 2. At the same time, coordination would usually involve additional administrative efforts and potential complexity traps¹⁰⁹.

Underlying rationale of policy efficiency & effectiveness. In this scenario, the ambition is to increase policy efficiency through (a) better coordination guided by shared policy objectives, and (b) avoiding complexity traps. This means all EU policies would be coordinated and assessed for their contribution to reducing regional inequalities. Furthermore, coordination with national plans should strengthen coordination at lower levels. Cohesion Policy would need to align its thematic orientations with the objectives of other policies, while other policies may need to pay more attention to their impacts on cohesion. As highlighted in the 9th Cohesion Report, each policy shall do its bit to increase cohesion¹¹⁰. The integrated approach may result in a stronger territorial presence, integrating the territorial aspect more in sectoral policies.

5.2 Integration scenario

Following the above assumptions, Cohesion Policy should evolve towards more integrated handling of the funds and increased coordination with other EU policies.

Integration of Cohesion Policy funds. The scenario emphasises synergies between the funds and maximising the impact on integration between Cohesion Policy and other sectoral policies, but also a strategic allocation of funding towards the most pressing needs. This can either be a stronger focus on multi-fund programmes or a merger of Cohesion Policy funds into one fund. A merger may help increase simplification for fund management, applications for funding, monitoring and reporting. In the best of all cases this could include rural development funding currently under the Common Agricultural Policy.

In this scenario a stronger focus on common provisions for Cohesion Policy and a single set of rules would make it easier for beneficiaries to apply and conform. For monitoring and evaluation, the

¹⁰⁸ Ursula von der Leyen, 2024.

¹⁰⁹ Artur Benz, 'How to Reduce the Burden of Coordination in European Spatial Planning', *European spatial planning*, Lincoln Institute of Land Policy, 2002, pp. 139–155.

¹¹⁰ European Commission, 2024a.

processes and requirements could be streamlined and coordinated, making administration easier. All the above point to increased efficiency. Enhanced synergies between different interventions would add value, as one project could address several needs for one region, without being fragmented over several projects or even programmes. This could concern rural development measures which could more easily combine infrastructure development from ERDF with training under ESF and possibly even rural development under EAFRD.

Integration with other EU policies. Better integration and coordination of EU policies implies a shift in EU policy development and implementation emphasising shared policy aims and the benefit for the EU and its citizens. Rather than focusing on Cohesion Policy contributions to other EU policy objectives and asking other policies to do no harm to cohesion, the emphasis would be on jointly achieving sector policy and cohesion objectives. This means also sector policies explicitly addressing and contributing to reducing regional inequalities.

The main coordination – also addressing national funding sources – would take place in the plan for each country linking EU investment with reforms. This can be imagined as a mix of the European Semester Country Specific Recommendations, National Reform Programmes and the national Partnership Agreements of Cohesion Policy.

Following this approach and to better tailor EU policies and their coordination to regional specificities, regional Cohesion Policy programmes could be widened, addressing all EU investments and policies in the region.

Integration with national policies. Experience from the coordination of policies and funds at EU level, may create spillover effects, enhancing policy cooperation within Member States that is vertical, i.e. across different administrative levels, and horizontal, i.e. across different sectors. This may also regard thematic cooperation and national funding. The plans for each country (see above) would offer an opportunity to increase the coordination of EU and national policies. In this case, enhancing capacity planning, exchanges and knowledge sharing would be necessary.

Thematic focus. The thematic focus would be diverse and depend on the trends, priorities and needs of the different policies. It would focus on pressing needs and overarching goals of the EU. These may range from innovation and digital matters to climate change challenges to echo the twin transition objectives, but also a fairer EU or even defence and security. The integrated approach would cover different funds and policy priorities, but in a more general way, leaving flexibility for programmes and Member States to adjust these in practice. At the same time, the thematic focus of Cohesion Policy may narrow, focusing on strengthening economic, social and territorial cohesion. As other EU policies contribute to enhancing cohesion and reducing regional inequalities in their domain, Cohesion Policy could become more selective.

Eligibility criteria. In this scenario, all EU regions officially remain eligible for Cohesion Policy, irrespective of their economic level. However, depending on the division of labour with other policies, Cohesion Policy might focus its support to the less developed regions, regions with low economic dynamism (e.g. trapped regions) and regions that lack development opportunities. Nevertheless, it is possible that funding for innovation would be targeted on highly innovative regions to maintain their comparative advantage and remain competitive at the global level. In any case, to reinforce an integrated approach, indicators used to allocate resources would most likely go beyond GDP per capita and also reflect other sectoral policy objectives. The choice of indicators (including from the list in the appendix) would be the subject of political debate. The question of where to set the thresholds above or below which a region becomes eligible would also be the subject of political debate, taking into account the available resources under the MFF.

Role and shape of territorial cooperation. Territorial cooperation under the integrated approach would play a key role, as it enhances knowledge exchange and integration. It could be cross-border, transnational, or interregional fostering greater collaboration among sectors and players, bringing cross-border or transnational places closer together.

Management approach. The integrated approach would imply that policies currently based on direct management and policies working with shared management would have to find common ground for integrated management. This would also relate to questions concerning strengthening a performance-based approach. In this scenario, the integrated approach would use shared management, involving the EU, as well as national authorities, with a strong involvement of regional and local authorities. Multi-level governance would be ensured and followed. As now, application of the shared management approach would continue to vary by Member State. Given the focus on national plans to strengthen policy coordination, there is a risk that national ministries would increase their influence at the expense of local and regional authorities. However, the involvement and stronger participation of local and regional stakeholders in the design and implementation of Cohesion Policy programmes is essential if regional disparities are to be tackled effectively. The Commission would have an overview of this integrated approach. It would oversee the implementation of programmes and projects, collaborate with other DGs and oversee territorial presence in policy making.

5.3 Scenario impacts – balancing competitiveness and cohesion

The implications of this scenario may influence several aspects of EU integration and policy making as we know them today. Pushing for more integrated policies and considering their effects on cohesion may ensure better synergies that reduce regional inequalities. At the same time, there might be risks of lower performance and competitiveness for stronger players and less global excellency and competitiveness (as they may receive less financial support from EU policies than today if there is a stronger focus on addressing regional inequalities), at least in the short run.

Economic implications. The EU faces considerable structural challenges of declining dynamism and competitiveness on the global stage that has plagued it in recent decades. In this scenario, EU policies would strive for a strategic framework uniting competitiveness and cohesion with other policies. Long-term competitiveness and economic dynamism are unattainable without cohesion, while cohesion deficits also pose a substantial threat to economic, social and political achievements¹¹¹. Place-based approaches are fundamental to strengthening the Single Market by promoting economic diversity, regional resilience and inclusive growth throughout the EU¹¹². Place-specific targeted interventions can help regions within the EU to harness and maximise their unique potential, contributing to overall economic health and integration of the Single Market.

EU policies which traditionally looked at supporting excellence, such as competitiveness, industrial and innovation policies, would start paying more attention to their effects on regional inequalities. Taken together with Cohesion Policy and EU social policies, this should enable a systemic and dynamic policy approach that taps into the EU's economic potential, especially in less developed and vulnerable areas. It could enhance development and competitiveness throughout the continent and encourage the generation and diffusion of economic activity¹¹³. When all policies follow a cohesion spirit, investment efficiency is expected to be limited in the short-run, although the long-term effects hypothesised by JRC following the RHOMOLO model make it worthwhile and would

¹¹¹ European Commission, 2024b.

¹¹² Enrico Letta, 2024.

¹¹³ European Commission, 2024b.

reduce disparities in the long-run¹¹⁴. JRC calculated a scenario on the cohesion impacts of education and training. It shows that higher cohesion consideration in education and training investments reduces economic disparities through higher labour productivity, increased labour supply, higher returns of enterprises, with higher wages and household incomes. Following the scenarios calculated by JRC, an increase of investments in education in some regions by up to five times the EU mean funding to GDP ratio, would increase the GDP impact of the policy in the targeted regions by about 4% and 10% with respect to the EU average in 10 and 20 years respectively. As a result, regional inequalities in the EU would decrease due to the higher growth rates in low innovation regions¹¹⁵.

At the same time, policy implementation in this scenario may not rigorously spread competitiveness and growth throughout the EU, nor raise the baseline and increase competitiveness and growth by strengthening first movers¹¹⁶.

Success would lie with more integrated EU policies ensuring the EU strengthens first movers essential for global competitiveness while following a cohesion approach which exploits the potential of all places and players in the EU. If the balance is managed, this scenario should reduce regional inequalities and liberate trapped regions.

Environmental implications. An integrated policy approach is expected to help investments in green innovation, as well as investments to address climate change consequences. This should result in more sustainable and more resilient territories and better ecosystem services improving people's wellbeing. This would make regions and places in the EU more liveable and more attractive.

As with the first scenario, there would be asymmetric impacts on regional inequalities, as climate change issues continue to be approached independently by different policies. Some of these focus on the shift to zero carbon industry, some on environmental concerns related to biodiversity and coping capacities, and others on regional mitigation and adaptation. In an integrated policy approach differences in transition potential are expected to be tackled more coherently through the coordination of sector and regional policies, and limit risks that transition processes increase regional inequalities. Lessons from the Just Transition Fund may be an example. Furthermore, a continuation of existing policy approaches may help to reduce regional inequalities for the environment and pollution while increasing preparedness for climate change impacts in all regions.

Societal implications. Better integrated policies should increase place-based approaches to tackling social inequalities beyond the scope of ESF. A Union of equality is helped by an integrated approach¹¹⁷.

Application of the EU Pillar of Social Rights, including commitments to increasing inclusion, care, education and skills as well as more and better-quality jobs, should lead to more nuanced spatially blind horizontal policies addressing particular social challenges in places in conjunction with other EU policies. A social EU can only be shaped when reducing inequalities and ensuring a fair and good quality of life for people is a key priority. Through the integrated approach, more inclusive policies can take into account aspects of different policies. These can help people stuck in places with low opportunities who are at a considerably higher risk of poverty or social exclusion. They could also increase opportunities for groups in vulnerable situations, including young people, women, elderly workers, Roma people and other ethnic or religious minorities, LGBTQ+ as well as migrants.

¹¹⁴ Committee of the Regions, 2021.

¹¹⁵ Nicholas Lazarou et al., 'The Cohesion spirit and EU policies: A scenario analysis', European Commission - Joint Research Centre, 2021.

¹¹⁶ Michael Storper, 2023.

¹¹⁷ Ursula von der Leyen, 2024.

In that sense, better integrated EU policies may help to reduce social disparities and inequalities between people and places including territorial pockets of poverty or scarce opportunities. They may also help to strengthen the idea of a 'freedom to stay'¹¹⁸.

Territorial implications. Not all territories would be affected in the same way in this scenario. In general, more integrated policies may lead to more territorial integration, however, the territorial aspect needs to be respected and taken into account in policy design and implementation.

Places that already have critical mass in terms of infrastructure, development and skilled personnel may already be in a more privileged position. Urban areas, for instance, with advanced physical and digital infrastructure may leverage additional funds to enhance city initiatives, sustainable actions and green projects. Urban innovation hubs may enhance their digital profile, build partnerships and networks with other urban regions and develop economically by attracting more businesses and talent¹¹⁹. If working well, integrated policies reduce social exclusion in urban regions.

At the same time, rural areas investing in innovative applications of agricultural policy, either using EU or national funds or both, or rural areas with a vision¹²⁰ directing their focus to innovative companies in rural areas, may also progress economically.

Places that capitalise on innovation, capacity building, upskilling and lifelong learning opportunities may have more chances to benefit from better integrated and coordinated EU policies.

Cohesion Policy can support the management of all policies to ensure they are on equal terms, economic, social and territorial development is balanced, there are frequent exchanges between sector policies, capacity building and vertical governance cooperation is high and specific territorial needs are taken into account. This is linked to Cohesion Policy developing and implementing national plans (see above) and using Cohesion Policy programmes as a framework for policy coordination at national and regional levels.

Better integrated policies should make use of the potential and address the challenges of all places. They provide a good opportunity to reduce regional inequalities and ensure fewer places end up in development traps. However, as pointed out above, this may not just involve levelling up places and contains the risk of levelling down.

Implications on European integration. The integrated policy approach may bring a more unified balance with the social aspect integrated in all facets of economic development. The approach should connect the dots and keep cohesion as a key value of policy making. This may sacrifice some growth and competitiveness but balance key EU policy objectives and values.

As a result, places may come closer together, although inequalities may still be visible and would not be entirely addressed. Still less inequalities and fewer people and places left behind would strengthen the feeling of togetherness in the EU and reduce geographies of discontent and growing Euroscepticism.

Table 5.1 – Implications of Scenario 2 – Integrated approach

	Scenario 2 – Integrated approach
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¹¹⁸ Enrico Letta, 2024.

¹¹⁹ COM(2023) 32 final.

¹²⁰ Anne-Katrin Bock and Maciej Krysztofowicz, 'Scenarios for EU rural areas. Contribution to European Commission's long-term vision for rural areas', Publications Office of the European Union, 2021.

<p>Economic implications</p>	<p>The EU faces structural challenges in competitiveness and economic dynamics. Place-based approaches may strengthen the Single Market and enable regions to capitalise on their own strengths.</p> <p>Investments in education and training may contribute to improve productivity and quality of life in the long run.</p>
<p>Environmental implications</p>	<p>In an integrated approach, investments in green innovation and climate change adaptation would be promoted in a coordinated way, resulting in more sustainable territories, with improved ecosystems that are more liveable and attractive.</p> <p>An integrated approach may better manage differences in green transition potential, capitalise more on lessons from the Just Transition Fund and limit regional disparities thanks to greater preparedness for climate change.</p>
<p>Societal implications</p>	<p>Better integrated EU policies can support stronger place-based approaches towards addressing social inequalities, going beyond the ESF and committing to increasing inclusion, care, education and skills.</p> <p>A social Europe can be achieved with less inequalities and a higher quality of life, where more policies include the social aspect especially in areas with vulnerable populations. Promoting the 'freedom to stay' and creating the conditions for people to enjoy social and territorial cohesion would be beneficial.</p>
<p>Territorial implications</p>	<p>Integrated policies can enhance territorial integration. Places with existing critical mass in infrastructure, innovation and sustainability, particularly urban areas, may be in a more privileged position. Similarly, rural areas that invest in innovation or have a vision for their development may be better off than those which are remote or less connected.</p> <p>Balancing territorial needs and ensuring a good balance between economic, social and territorial development would continue to be the key role of Cohesion Policy, with increased capacity building and policy coordination.</p>
<p>Implications on EU integration</p>	<p>Prioritising cohesion as a value and bringing the social aspects within an integrated approach would result in a more unified balance, in spite of growth and competitiveness slowing down.</p> <p>More integration may reduce regional inequalities with fewer regions being left behind and fewer people feeling left behind, mitigating growing discontent.</p>
<p>Extent regional inequalities are addressed</p>	<p>An integrated approach, where cohesion is embedded in all policies should reduce inequalities. Tackling the challenge of regional inequalities in a coherent and coordinated way may increase inclusion and the feeling of togetherness in the EU.</p>

Source: Spatial Foresight.

The scenario of an integrated approach is balanced with pros and cons. The scenario has shown that inequalities may be unavoidable, though embedding cohesion in all policies should reduce inequalities. However, the trade-offs and effects would differ for different territories, as some may benefit from the policy developments, while others not. Therefore, any positive or negative aspects are seen through the eyes of the reader's values.

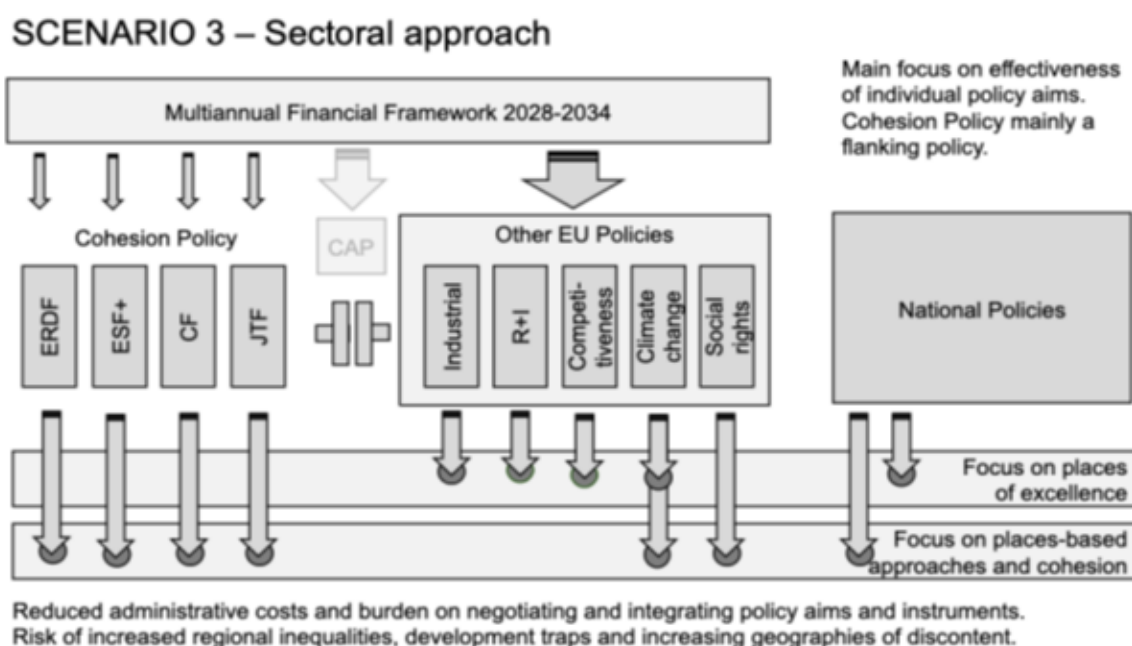
6 Scenario 3 – Sectoral approach

Key findings

- The scenario emphasises a sectoral approach where EU policies operate independently with a focus on enhancing global competitiveness. This approach prioritises growth-related policies and allocates funding to areas with the highest economic returns, potentially sidelining cohesion and regional development objectives.
- Cohesion Policy in this scenario is relegated to a secondary role, focusing on the neediest regions and areas with geographical specificities. The integration of Cohesion Policy funds is reduced, leading to fragmented implementation and increased administrative burden at the local level.
- The fragmented policy approach to EU policies risks exacerbating regional and social inequality, well-funded regions and sectors with high growth potential benefit the most. Less developed regions and those in development traps fall further behind, deepening disparities across the EU.
- The strong emphasis on economic growth may lead to environmental and social objectives being sidelined. Without coordinated efforts, long-term environmental goals could be compromised, and social disparities increase, particularly in regions lacking the capacity to compete effectively.
- The sectoral approach poses a significant risk to European integration. By fostering regional inequality and weakening cohesion, this scenario could fuel fragmentation and discontent.
- Centralised management of sectoral policies with limited coordination at the national and regional levels could strain multi-level governance. This would increase administrative complexity and reduce the effectiveness of regional and local authorities in addressing territorial needs.

This scenario focuses on an increased sectoral approach of EU policies, which become fragmented. To increase the efficiency and effectiveness of each policy they would all operate in isolation without clear policy coordination or shared (cohesion) objectives.

Figure 6.1 – Sectoral approach – Overview scenario 3



Source: Spatial Foresight.

Cohesion Policy returns to its role as a flanking policy and even the integration of funds within Cohesion Policy is minimised. Such an approach could mean that Cohesion Policy shifts its focus, emphasising public goods and becoming more centrally managed. A quick summary of the scenario is provided in Figure 6.1.

6.1 Scenario assumptions

The scenario has been developed based on the following assumptions:

MFF focus. The EU must regain its competitiveness to remain a global player. This may result in a more competitive funding process, as Member States or regions compete for funding, showcasing any direct and quick results¹²¹. Sector policies would be forefront. This approach echoes the recommendations of the Sapir report, which advocated for more emphasis on sectoral policies to enhance growth, competitiveness and cohesion within the EU, increasing the benefits of the Single Market¹²². Following this the MFF prioritises sectors over horizontal issues and focuses on areas with the highest growth potential, like research and innovation, rather than regional development or regional subsidies. A performance-oriented approach and resource allocation would be key to refocusing policy.

In this case, Cohesion Policy has a secondary role going back to Jacques Delors' original idea of it being a flanking policy to enhance solidarity between Member States by extending it to regions¹²³. This would reduce the share of MFF allocated to Cohesion Policy and set apart the allocation for individual funds under Cohesion Policy more clearly.

Integration of EU policies. In this scenario, where policies are fragmented, their interaction would be very limited. Each policy and fund would function in parallel and independently, prioritising growth-related measures. Strong competition among them may emerge with funding directed towards each policy's interest. The approach resembles 'Lisbonisation'¹²⁴, directed more to support for competitiveness, economic growth and employment rather than regional development. Furthermore, there is a risk of overlapping priorities and underexploited synergies.

The idea of a 'do no harm to cohesion'¹²⁵ would be abandoned. Cohesion Policy would be sidelined.

The RRF could continue and become mainstream, where policy development is decided centrally at EU level and linked to reforms rather than to softer achievements.

Underlying rationale of policy efficiency and effectiveness. The rationale behind this approach is increased competitiveness and growth. Effectiveness in achieving single policy aims is the key compass for policy design and implementation. More than already today, it is very much focused on performance-based approaches with quantifiable targets related to a policy objective and funding or payments linked only to these targets. A sectoral approach focusing on growth and competitiveness may result in more effective policies to increase the global competitiveness of the EU.

6.2 Sectoral scenario

¹²¹ Ursula von der Leyen, 2024.

¹²² André Sapir et al., 2003.

¹²³ Marjorie Jouen, 'The single market and cohesion policy dyad: battered by the crisis of globalisation', Jacques Delors Institute, 2014.

¹²⁴ Lisbonisation describes an approach with parametric governance, such as the Open Method of Coordination, which focuses on fixed targets often linked to the main objectives of the Lisbon Strategy for growth and jobs in 2000.

¹²⁵ European Commission, 2024a.

Following the above assumptions, Cohesion Policy would reduce its support for other policy objectives. Rather than advocating integrated territorial development, Cohesion Policy would focus on cushioning disparities and supporting the neediest.

Integration of Cohesion Policy funds. Under this scenario, the integration of Cohesion Policy funds is reduced or barely exists and common provisions for Cohesion Policy are abandoned. Funds operate individually, without coordination or cooperation. This also implies there are no longer multi-fund programmes. At project level, local and regional authorities would have to comply with rules and legislation tailored to each fund.

Integration with other EU policies. The fragmentation goes beyond Cohesion Policy, which would cease to support other EU policy objectives. This means there are no longer thematic objectives related to innovation, digitalisation, the green transition, or climate policy. These are entirely addressed by EU sector policies which do not consider their impacts on economic, social or territorial cohesion. The policies operate in fully separated silos. This implies considerable conflicts of interest between EU policies which usually are only evident when these policies are put into practice at national or sub-national level. The conflicts of interest also need to be solved at these levels.

Besides Cohesion Policy, other horizontal EU policies and aims would be sidelined as they cannot rely on other policies supporting and implementing them. This also concerns the EU Pillar of Social Rights, which needs to negotiate hard to get something done.

Integration with national policies. National policies play a key role in this scenario. With policies being less coordinated at EU level, Member States may take a more prominent role in coordinating policies, including Cohesion Policy and integrated territorial development. To do so, they may tailor different approaches reflecting their capabilities, resources, political orientations and needs. In some Member States, national policies can fill in the gaps that sectoral policies and Cohesion Policy could not.

Thematic focus. The thematic focus is based on overarching EU priorities for each policy domain. However, as the focus would be on competitiveness, related policies may form the key part of funding. Themes and topics that could guarantee investment returns would be high on the list. As a result, clusters of Member States may form to promote their own interests as a response to a diminishing system. For Cohesion Policy, a reorientation to key cohesion priorities implies a return to the objectives and priorities of the 1989–1993 or 1994–1999 periods¹²⁶. The thematic focus would be on regions seriously affected by economic decline, combatting long-term unemployment, services of general interest and areas with geographic specificities. Following Art. 174 TFEU this would imply support for regions with severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density as well as island, cross-border and mountain regions.

Eligibility criteria. Sector policies would have a spatially blind policy approach and not apply geographical criteria for support or funding. With the 2007–2014 programme period, Cohesion Policy had shifted towards making all EU regions were eligible for funding. Given the narrower thematic focus of Cohesion Policy in this scenario, the geographical coverage of support would again be limited. Only the neediest regions – currently known as less developed regions with a GDP per capita below 75% of the EU average – and regions specified in Art. 174 TFEU (see above), would be eligible for Cohesion Policy support. The question of where to set the thresholds above or below which a region is eligible for funding would be the subject of political debate, also taking into account the amount of funding available for Cohesion Policy in the MFF.

¹²⁶ See also <https://steadyhq.com/en/spatialforesight/posts/4ec8b3a5-6f47-4e20-af81-053c3ff113c4>

Role and shape of territorial cooperation. Territorial cooperation would be challenged, as the lack of fund coordination creates more havoc and reduces the added value of cooperation. At the same time, territorial cooperation is the last bastion for integrated development approaches that give access to Cohesion Policy funding for all regions. So, cross-border or transnational regions may join forces to do more with less.

Management approach. Inspired by RFF and other centrally managed EU policies, the management of EU policies could become increasingly centralised. Most would be managed directly by the Commission, instead of applying a shared management approach. Performance and efficiency would be key, focusing on thematic areas, rather than a territorial approach. Regional and local authorities would be further burdened with copious legislation, reporting routines and project management that increase administrative burden and errors, leaving little flexibility to develop. Still, for Cohesion Policy the involvement of regional players in the design and implementation of programmes would remain central, especially in a context where not all regions in a country are eligible.

6.3 Scenario impacts – the tide that lifts all boats

As the scenario unfolds, the increased sectoral approach may very well be the ‘tide that lifts all boats’. A strong focus on competitiveness and innovation and reallocating resources towards policies that directly support innovation, research, education and infrastructure could help increase growth and competitiveness across the EU. This could be despite growth originating from some regions only, at least in the short to medium term. It would also reduce administrative costs and the burden of negotiating and integrating policy aims and instruments. However, it could increase the risks of goal conflicts, regional inequalities, development traps and geographies of discontent.

Economic implications. In a more fragmented policy future, the implications for different priorities vary. There may be a fragmented economic picture, with funds distributed disproportionately across regions and territories. In a more competitive landscape, most funding would be directed to policies and fields with the highest returns, not necessarily to those with the most needs. This may depend on overall EU priorities, or even lobbying by regions and Member States. The Single Market would continue but may face challenges, with opportunities in certain regions hampering its freedoms, or even competing regions, hindering its flexibility. In addition, the ‘freedom to stay’¹²⁷ may not be relevant anymore, as people would need to move to places where ‘things happen’ for work. On the other hand, the global presence of the EU may increase, as would its economy. This, however, may not be a result of harmonious development in all territories, just in specific regions and areas.

If the Single Market gets more fragmented, it may cause imbalances in EU trade and reduce its global presence. In a race for more innovation to compete in global markets, the EU may be unable to create equal opportunities with the risk of ‘technofeudalism’¹²⁸ where companies treat customers as serfs. Investments and innovations across the EU would also differ across regions, favouring areas with better infrastructure and skilled personnel, increasing imbalances, as well as regional and social inequalities. Disparities in the labour market may increase, especially in regions unable to compete.

The lack of a common vision or goal where policies, legislation and programmes are directed towards the same aim, would increase regional competition and challenge European territorial cooperation.

Cohesion Policy’s support for the neediest and areas with geographical specificities, according to Art. 174 TFEU could not cushion increasing disparity between regions. Regions in development traps would receive little to no policy attention as the focus may be directed to stronger players.

¹²⁷ Enrico Letta, 2024.

¹²⁸ <https://www.newyorker.com/magazine/2024/04/01/has-capitalism-been-replaced-by-technofeudalism>

The overall competitiveness and economic growth of the EU may increase due to support focused on strong players in each sector policy. There may also be spillover effects from other places thriving, creating a tide that lifts all boats. However, there may also be more inequalities between places as more experienced, wealthy and highly achieving places prevail, leaving others in development traps or behind. Such an approach may even disentangle the whole EU project, as it would eventually result in high inter- and intra- regional territorial inequalities.

Environmental implications. Further to this, it may also be challenging to balance economic and environmental objectives. Environmental impacts would be long-term, maybe not even visible for decades. In an effort to achieve high economic growth, environmental goals may be sidelined or neglected. Environmental considerations may become secondary in an effort to achieve more funding. A lot would also depend on whether the Green Deal continues as a priority. Certainly, all these developments may result in the degradation of the natural environment, loss of biodiversity, fewer circular economy efforts but also an increase in extreme natural phenomena, with potential consequences on people's health, tourism, agricultural production and others. Projects may focus on counterbalancing the effects of growth, investing more in adapting to the consequences, instead of investing in the prevention of future environmental challenges.

Societal implications. Social development would also be a victim of this policy fragmentation. Horizontal policies would face major challenges, as they rely on support from other policies. However, with each policy silo focusing on its own aims, there is little scope for also supporting social integration. Social projects and initiatives through ESF+ may be the only game in town.

In that sense, a fragmented policy scenario may risk increasing social disparity at all levels. There are more risks for pockets of poverty, segregation and local exclusion, but also risks of increasing social disparity between regions and countries.

Territorial implications. Places that already have a critical mass would be favoured under this scenario. Although fragmentation would be inevitable, urban areas which are economically developed or have a specific niche, or even highly specialised territories, being remote or not, could prosper as they would attract more investment and become competitive. Places with innovation hubs, research institutions and informed personnel would be targeted for funding and investments. In addition, regions that heavily depended on traditional industries could undergo a transition, with a new specialisation and earn their way to investment and support.

Regions that can support other, more developed regions, offering links in the value chain, may also benefit. Less competitive regions may supply renewable energy to the growth poles. Abandoned regions may become ecosystem service territories, to balance the environmental effects.

Regions unable to compete and in a development trap risk falling further behind. Cohesion Policy may help cushion growing disparities, though it is unlikely to change their development trajectories.

In any case, strong administrative capacity would be necessary to cope with the complex system of different sector policies, so territories that have worked on capacity building and have high governance trust would be a step ahead in the process.

Territorial diversity in the EU would grow with fragmented policy making. As pointed out by Robert et al.¹²⁹ sectoral and territorial policies interact at various geographic levels, and a key policy question is what level should be targeted for economic and social cohesion and to what extent.

¹²⁹ Jacques Robert et al., 'Spatial impacts of community policies and costs of non-co-ordination', European Commission - DG REGIO, 2001.

Implications on European integration. EU integration may be at risk, unless very strong EU or national social policy, where possible, is accompanied with funding. Social inequalities may increase not only across, but also within, Member States and regions. Increased discontent may put EU solidarity and social inclusion at stake. The environmental imbalance may also put EU goals into question, as these may compete with growth plans. Regional economic and social inequalities may persist, so Cohesion Policy may need to strongly advocate for its role. Without this, uneven development may follow and be hard to reverse.

A more fragmented picture could see the EU as multiple regions and not as a union, even questioning its values. Insufficient institutional capacity, policy fatigue, diverging results of sector policies, lack of cooperation and coordination may bring chaos.

The scenario on a sectoral approach presents pros and cons. Inequalities may persist and even be stronger as competitiveness would be prioritised over environmental and social aspects. However, the consequences would differ between territories. Not all would grow in a similar way and some may benefit from the policy developments, while others not. Therefore, any positive or negative aspects need to be seen through the eyes of the reader's values.

Table 6.1 – Implications of Scenario 3 – Sectoral approach

	Scenario 3 – Sectoral approach
Economic implications	<p>In the sectoral approach, the policy future would be more fragmented with widening economic disparities across EU regions. Funding may be allocated to places with the highest returns, e.g with better infrastructure and skilled labour, while others may fall behind or into development traps.</p> <p>EU growth and global presence may improve, but at the cost of territorial cohesion, as competition between regions may increase, destabilising EU integration.</p>
Environmental implications	<p>Environmental objectives may be deprioritised in the name of economic growth, which could sideline any further progress towards environmental sustainability and slow initiatives like the Green Deal.</p> <p>Neglecting environmental goals may result in natural degradation, loss of biodiversity and decreased circular economy efforts. In the long run this may also result in increased natural phenomena, impacting not only the economy, but also people's quality of life.</p>
Societal implications	<p>Social development may be a victim of policy fragmentation, as the focus on each policy's objectives leaves limited scope for social integration.</p> <p>Social disparities may rise and exacerbate, both within and across regions, increasing poverty, segregation and social exclusion across the EU.</p>
Territorial implications	<p>More developed and specialised regions may benefit more, especially economically developed urban areas and specialised places with innovation hubs, research institutes and critical mass.</p> <p>Less competitive territories may be challenged and risk falling behind. Strong administrative capacity would be necessary to change this development path.</p>
Implications on EU integration	<p>A fragmented, sectoral approach may threaten EU integration and solidarity, as social and regional inequalities may increase, within and across Member States, as the lack of coordinated social policies may raise disparities and fuel discontent.</p> <p>Uneven development across territories may reinforce territorial inequalities, weakening EU cohesion and resulting in an EU of a collection of regions, rather than a unified entity.</p>
Extent regional inequalities are addressed	<p>Regional inequalities would widen in the sectoral scenario, as little effort would be put into alleviating social exclusion. Cohesion Policy alone may not be able to address the inequalities and without coordinated efforts, the EU project and values may be put at risk.</p>

Source: Spatial Foresight.

7 Impacts of EU actions on regional inequalities

Key findings

- The three scenarios – continuity scenario, integrated approach, and sectoral approach – illustrate different pathways for the future of Cohesion Policy and coordination between EU policies. The thread throughout is that less cohesion leads to greater inequalities.
- The scenarios underline that a one-size-fits-all solution would not reduce regional inequalities. Policies need to respect territorial diversity and be tailored to the specific needs and governance structures of different regions, ensuring that no place or person is left behind.
- An integrated approach, where policies work in synergy under a cohesive framework, is highlighted as potentially the most effective in reducing regional disparities. However, it may risk trade-offs regarding global competitiveness.
- Cohesion is not solely dependent on financial resources. Effective and multi-level governance and capacity building are equally important to fostering cohesion. At the same time, financial resources must be strategically allocated to address the most pressing territorial needs.
- There is a call to rethink the future of Cohesion Policy, particularly its role in targeting the right regions and people. The current approach may need adjustments to ensure that support reaches those most in need, rather than perpetuating inequalities within large, diverse regions.
- To guide policy integration, there is a need for a shared EU vision that integrates cohesion as a core value across all policies, not just within Cohesion Policy.

The scenarios show that different approaches to cohesion, Cohesion Policy and other policies may have different impacts on the economy, the environment and society, as well as on territories and European integration in general. The thread of the report is that less cohesion means more inequalities and the three scenarios look into different possibilities from the different paths.

This chapter compares impacts of the three scenarios, with some conclusions and lessons, closing with some thoughts about the future.

7.1 Impacts

The three scenarios offer distinct, possible and plausible pathways of the future of cohesion and its impact on regional inequalities. The scenarios are explorative, provide inspiration and out-of-the-box thinking, without offering accurate predictions about the future.

The first scenario looks at the continuity of the current set up. In this case, Cohesion Policy funds operate under shared management and are available for all EU regions. Nevertheless, thematic priorities may be adjusted to upcoming challenges and priorities. The twin transition is likely to remain and broaden with new technologies and clean energy while new topics, like security and defence, or a strong social focus may play a key role. In addition, increasing competitiveness and economic growth would be a priority to position the EU in the global sphere, create jobs and attract talent. All this would be supported by Cohesion Policy, which continues to support other overarching EU policy objectives. At the same time, other EU policies focus merely on achieving their own policy objectives, and in the best case try to not harm cohesion. The impact on territories differs. Regions with adequate infrastructure, critical mass, research institutes and universities may benefit more from investments. These would primarily be capital cities, urban areas and smaller towns that are technologically advanced or networked with research institutes. Although this may create job opportunities, these may not be evenly distributed and could pose a risk to social equality. At the

same time, less developed regions, or places caught in a development trap may fall behind, resulting in both regional and social inequalities. The green transition could also reduce regional inequalities, especially in rural regions or islands. However, it favours more developed regions, potentially exacerbating regional and social inequalities¹³⁰. In the social sphere, a strong focus is necessary to ensure that all citizens enjoy the same privileges. Access to services, education and training would be key. Failing that, social inequalities may increase, putting additional pressure on regional inequalities.

The second scenario looks into a more 'integrated approach', with Cohesion Policy funds being better integrated and policies functioning under one umbrella. The scenario envisions a more coordinated approach which may also lead to more efficiency due to synergies. Aligning objectives and priorities, prioritising joint important issues and working together may stimulate growth and reduce socio-economic disparity. More integration of Cohesion Policy funds might target them more, with synergies and more efficient policy making. Policy integration goes beyond Cohesion Policy to include better alignment and coordination with other EU policies. Rather than focusing on Cohesion Policy contributions to other EU policy objectives and asking other policies to do no harm to cohesion, the emphasis is on jointly achieving sector policy and cohesion objectives. This means also sector policies explicitly address and contribute to reducing regional inequalities. All efforts for this coordinated approach need to be based on cohesion as a value, incorporated in every sectoral policy. Territories would be impacted in different ways. Better policy integration and coordination – with a clear cohesion objective – may offer more place-based solutions and reduce the risk of leaving places behind and increasing regional inequalities. It could be a step towards more cohesion and increased European integration. Although, policies may focus on topics with the highest competitive edge, depending on lobbying capabilities and the funding available, it might be more challenging to increase EU global competitiveness in this scenario. Nevertheless, this approach could still be competitive, with policies needing to identify territories to focus on and places with high potential and sectoral policies 'fighting' for funding.

The third scenario looks into a 'sectoral approach', where each policy operates in a silo with limited cooperation. There is no overarching coordination or synergy. Economic, social and territorial cohesion are restricted to Cohesion Policy, which over the years may have been reduced in the name of competitiveness and growth. This shift echoes the findings of the Sapir report¹³¹, prioritising efficiency and competitiveness to ensure growth. The management of funds becomes more centralised and directed to territories which can bring results, resulting in fragmentation. The focus would be on investments with high returns and national priorities may prevail. Environmental and social policies may slow, increasing interpersonal and regional inequalities. Less integration results in less cohesion, increasing inequalities. Developed regions would be the winners and thrive in global competitiveness, while others would need to rely either on Cohesion Policy or national support. A more fragmented approach may elevate EU competitiveness and growth, but may also put at risk its foundational principle of inclusion.

The table below briefly summarises the impacts per scenario.

¹³⁰ European Commission, 2024a

¹³¹ André Sapir et al., 2003.

Table 7.1 – Summary of scenario impacts

	Scenario 1 – Continuity scenario	Scenario 2 – Integrated approach	Scenario 3 – Sectoral approach
Economic implications	Benefits advanced regions and increases their global position Risks of increased regional inequalities and development traps	Place-based approaches may strengthen the Single Market, competitiveness and economic dynamics and enable regions to capitalise on their own strengths Regional disparities could be reduced	EU growth and global presence may improve, however, at the cost of territorial cohesion Widening economic disparities across EU regions
Environmental implications	Promotes further sustainability and resilience across the EU Impacts on regional inequalities may be asymmetric	More sustainable territories, with improved ecosystem services Reduced regional disparities	Reduced progress on environmental sustainability Risk of natural degradation, loss of biodiversity and decreased circular economy efforts
Social implications	May reduce interpersonal and regional inequalities Cohesion Policy may not be enough to tackle deeper social disparities	Less social inequalities, more inclusion, care, education and skills Promotion of the freedom to stay	Social development may be a victim of policy fragmentation Social disparities may increase
Territorial implications	Potential benefits for developed and transition regions, in particular urban centres, places with research centres and innovation hubs	Enhanced territorial integration Balance between economic, social and territorial development	More developed and specialised regions may be in an advanced position Less competitive territories may be challenged and risk falling behind
Implications on EU integration	Growing disparities often fuel discontent	Reduced discontent, increased inclusion and feelings of togetherness in the EU Risk of growth and competitiveness slowing	A fragmented, sectoral approach may threaten EU integration and solidarity Risk of EU turning into a collection of regions, rather than a unified entity
Conclusion on regional inequalities	Regional inequalities may persist Territorial and social fragmentation may increase, with regions left behind stagnating or losing potential	More balanced development, with fewer regions being left behind Risk of growth and competitiveness slowing	Social and regional inequalities may increase, within and across Member States Uneven developments may weaken EU cohesion

Source: Spatial Foresight.

The three scenarios presented three very diverse and distinct futures. Each comes with its own opportunities and challenges, as well as positive and negative implications. The trade-offs differ for each territory and each positive or negative element depends on the value of the reader. Which and

how any positive aspects would be promoted and how any negative ones would be alleviated depends on the political priorities for the future. These priorities would determine what actions need to be taken.

7.2 Lessons learnt

The impacts of the scenarios are diverse and stepping back from the scenarios highlights the following lessons for policy making.

There is no one size fits all. The three scenarios show that territorial diversity needs to be respected, and multi-level governance needs to be considered in policy design. Each place has unique potential, needs, challenges and opportunities, but also different governance structures and different degrees of government trust. In each scenario some territories would fare better. Each scenario has different positive and negative aspects with diverse implications with different dynamics and links to different developments. All these aspects need to be seen through the political priorities and assessed based on a fair and just value for all places in the EU. All this needs to be taken into account when designing tailored approaches, or more holistic and inclusive policies for all places are needed.

Clear purpose of policies. Policies need to have a clear purpose in their design and implementation. This not only regards each policy on its own, but all policies should work with each other towards a clear common, overarching goal. This means clear objectives, focused implementation steps as well as aiming for synergies and alignments, with overarching goals and coordination. Policies should work in coordination, be that EU sectoral policies and Cohesion Policy, but also EU policies and national policies and jointly achieve sector and cohesion objectives and align EU and national goals.

Non-financial ways contributing to more cohesion. More cohesion should not always be linked to additional funding. Often more can be done with less. Build on robust governance with higher trust in institutions and full application of multi-level governance, where all levels are represented. Capacity and institutional building, driven either by EU or national funding, can ensure better representation of citizens and regions with more harmonious development. Investing in softer elements would enhance equal participation in policy making and implementation to increase cohesion.

Financial contributions to more cohesion. Financial resources play a critical role in the promotion of cohesion and in reducing inequalities. It is important, however, to see the geography and impacts of spending. To reduce regional inequalities, where and how resources are spent needs to reflect territorial specificities and be directed to those most in need. Only a strategic and long-term fund allocation can be effective, properly support cohesion and thus reduce inequalities. Working in synergy and coordinating across policies greatly increases the impact.

Policy relevant indicators. The scenarios and policy reviews in chapter 2 also stimulate discussion about indicators in addition to GDP which could be used when framing the next round of Cohesion Policy. Regional inequalities and cohesion are complex and multifaceted. While GDP is widely considered a good proxy it is not sufficient to understand inequalities or design policies. GDP was not meant to be a comprehensive measure of prosperity and wellbeing. Among others Terzi¹³² highlights that GDP does not track inequality, or poverty, does not account for environmental sustainability, nor the value of voluntary work, and does not sufficiently capture intangible assets. Considering the expected policy focus on increased competitiveness, using the Regional Competitiveness Index and Regional Innovation Scoreboard could make sense to allocate funding

¹³² Alessio Terzi, 'Economic Policy-Making Beyond GDP: An Introduction', Publications Office of the European Union, 2021.

and geographically focus policy interventions (see e.g. sections 2.2 and 2.3). In addition, it is important to strengthen social wellbeing and sustainability. Here the EU Social Progress Index and work on regional adaptations of UN Sustainable Development Goal indicators provide good starting points¹³³. More important to understanding reductions in regional inequalities and funding for different types of regions, is it to look beyond static indicators. Development needs and disparities must also be viewed in terms of productivity, employment dynamics and development opportunities (e.g. the discussion on development traps in sections 2.1 and 2.4). This can be seen in an analysis of development traps and their associated risks, highlighted in the report 'The geography of discontent and regional development traps'¹³⁴. Regions facing development traps have lower average GDP growth, productivity and employment per capita compared to the EU, the country the region is in and the region itself in a previous period. Following this line of thought, the group of high-level specialists on the future of Cohesion Policy proposes looking at low development, lack of economic dynamism and lack of opportunities rather than just GDP¹³⁵. The choice of indicators to complement GDP in determining eligibility and allocation of EU funds is a political decision that needs to be discussed in the context of political priorities and EU policy objectives. Where to set the thresholds above or below which regions receive funding would also depend on the budget allocated to each instrument in the MFF, bearing in mind that for an instrument to be effective, money should not be spread too thinly and eligible regions need to receive significant amounts.

7.3 Final thoughts

As mentioned earlier, the purpose of the scenarios was to spark creative thinking. The point is not to select a preferred scenario and plan accordingly or hope that it would be successful. Instead, it is to make well-rounded, strategic and inclusive decisions that can be applicable and possible for all types of future. This is how scenarios inform policy-making. The following are some final thoughts to better prepare for the future.

EU vision for all places and people to guide policy making. To reduce regional inequalities, cohesion should not be an objective of Cohesion Policy alone. It should be integrated in all policies as a core EU value¹³⁶. This can be done through a better integration of policies with a stronger interplay among them, but also by ensuring that all policies are underpinned by cohesion as a value (Art. 3 TEU). Beyond policies, the EU might benefit from a shared vision, which should guide objectives and actions to navigate uncertainties and transformations¹³⁷. This vision might go beyond the restricted timeframe of a Commission, MFF or a crisis adaptive framework, and could be based on EU citizen ideals¹³⁸. More cooperation and synergies between policies is necessary to reinforce cohesion. In that respect, policies focusing on competitiveness and growth need to go hand in hand with environmental policies, as well as establishing links with social aspects to develop coordinated actions. Working together, exchanging knowledge and institutional learning, as well as capacity building would improve governance, cooperation structures and synergies among policies, and most importantly among people.

Reconsider our thinking about Cohesion Policy to better address inequalities. There have been several discussions about the future of Cohesion Policy. Some argue that it should continue as is,

¹³³ *Cohesion Policy Benchmarks beyond GDP to Better Reflect Well-Being Standard of Living*, Committee of the Regions.

¹³⁴ Andrés Rodríguez-Pose, Lewis Dijkstra and Hugo Poelman, 2023.

¹³⁵ European Commission, 2024b.

¹³⁶ Committee of the Regions, 2021.

¹³⁷ 'Cohesion policy and the single market: the cost of non cohesion', Committee of the Regions, 2024.

¹³⁸ Kai Böhme and Maria Toptsidou, 2022.

taking all regions and funds into account in a shared management approach. Some question its role as a crisis response vehicle¹³⁹, while others discuss a ‘revolution’ of Cohesion Policy, also in view of the RRF. This existential threat to Cohesion Policy puts centrally managed and performance-based implementation to the fore¹⁴⁰. Changes may be inevitable. One could be to the line of thought when discussing the future of Cohesion Policy and go back to the roots. This means re-thinking who needs Cohesion Policy support, as it is often questioned whether it targets the places and reaches the people most in need. Cohesion Policy aims to reduce inequalities in regions, though some are too large and diverse to allocate funds to those most in need¹⁴¹. As a result, contributions seem to make limited reductions in inequalities. Although Cohesion Policy contributions raise average incomes, the gains go to the ‘have’s’ instead of the ‘have not’s’, mainly due to the high administrative burden for small companies seeking support or a lack of effective local infrastructure¹⁴². As a result regional and social inequalities increase. Re-thinking and re-directing the aims, geography and way of spending could be key to addressing this challenge.

Territorial assessments could be included in all EU policies. All policies play their part in cohesion, whether intentional or not. They need to add the territorial dimension in their design and implementation, if the EU wants to improve how regional inequalities are addressed¹⁴³. In the past ESPON and the Committee of the Regions have worked on TIAs for selected EU policy debates, outside the Impact Assessment work carried out by the Commission. A next step could be to make TIAs mandatory for sectoral policies and further elaborate the TIA methodology developed by ESPON. This would contribute to a more cohesive future and boost efforts to reduce inequalities. TIAs should go beyond territorial questions in ex-ante impact assessments of EU initiatives. There are two aspects to this. Firstly, it should not only be an ex-ante assessment, but territorial impacts should also be part of ex-post evaluations and monitoring to improve understanding of how a policy affects regional disparity. Secondly, for a TIA to capture the complexity of territorial impacts, it cannot just be an expert judgement. It requires a participatory process with stakeholders from different levels of governance and affected sectors to understand the diversity of possible territorial impacts, to jointly select the most relevant indicators and to interpret the results. ESPON has developed several tools to support TIAs¹⁴⁴. Last but not least, the quality of a TIA always depends on the availability of up-to-date EU-wide data at regional level (preferably NUTS3 or lower). The availability of such data has increased considerably in recent decades. However, much more needs to be done and policy makers may wish to formulate their needs for regional data to Eurostat, JRC, ESPON and others.

¹³⁹ Francesco Molica, 2022.

¹⁴⁰ John Bachtler and Carlos Mendez, ‘Navigating stormy waters: Crises and Cohesion Policy beyond 2027’, European Regional Policy Research Consortium, 2023.

¹⁴¹ Nils Redeker, Daniel Bischof and Lang Valentin, 2024.

¹⁴² Ibid.

¹⁴³ European Commission, 2024a.

¹⁴⁴ See <https://www.espon.eu/support/territorial-impact-assessments>

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Appendix – territorial indicators

To support further discussion on understanding territorial diversity in relation to the policy areas covered in this study, this appendix provides a list of relevant indicators, most of which are available at NUTS2 level and some even at NUTS3 level. The indicators stem mainly from JRC, DG REGIO, ESPON and Eurostat and most of them are updated regularly. These indicators can serve as a starting point for quantitative studies assessing territorial diversity or modelling policy impacts, as well as for the selection of indicators for territorial impact assessments. The indicators listed can also serve as a starting point for discussions on indicators to complement GDP when deciding on the distribution of EU funds.

Cohesion Policy

To understand regional disparities in the EU (see 9th Cohesion Report):

- 1 Economic development index
- 2 Regional growth in GDP per capital
- 3 Employment rate
- 4 Regions in a talent development trap and regions at risk of falling into a development trap
- 5 Additional economic costs from climate change
- 6 European Quality of Government index

Industrial Policy

To understand the regional diversity of industrial performance the EU following indicators can be of interest:

- 7 EU regional competitiveness index
- 8 Innovation scoreboard performance
- 9 Headquarters of multinational enterprises
- 10 International / leading enterprises relevant to EU strategic autonomy, including Semiconductors and Microelectronics; Pharmaceuticals and Medical Supplies; Energy, including Renewable Energy Technologies; Digital Infrastructure and Cybersecurity; Defence and Aerospace; Food Security and Agriculture; Telecommunications and 5G; Artificial Intelligence (AI) and Advanced Computing; Transportation and Mobility
- 11 Coverage of EU based production in consumption
- 12 Price stability/ regional price disparities for Microelectronics; Pharmaceuticals and Medical Supplies; Energy, including Renewable Energy Technologies; Digital Infrastructure and Cybersecurity, Food Security and Agriculture; Telecommunications and 5G; Artificial Intelligence (AI) and Advanced Computing; Transportation and Mobility
- 13 Global connectivity
- 14 Collaboration between businesses and research institutions
- 15 High-tech employment
- 16 Access to and use of digital technologies
- 17 Innovation capabilities in adopting new technologies

Research and Innovation Policy

To understand the regional diversity of research and innovation the EU following indicators can be of interest:

- 18 EU Regional Innovation Scoreboard (ERIS)

- 19 Process and product innovation as a result of EU funding
- 20 Company spending on R&D or R&D expenditure as a percentage of GDP Global connectivity
- 21 Collaboration between businesses and research institutions
- 22 Patent applications
- 23 International scientific publications
- 24 Labour force education level
- 25 Employment in knowledge-intensive activities as percentage of total employment
- 26 SMEs introducing product or business process innovations as percentage of SMEs

Competitiveness Policy

To understand the regional diversity of competitiveness the EU following indicators can be of interest:

- 27 EU Regional Competitiveness Index (RCI)
- 28 Talent development trap
- 29 Number of 'hidden champions' (SMEs with a relative global market share above average)
- 30 Labour costs per output unit
- 31 Global connectivity
- 32 Collaboration between businesses and research institutions
- 33 Labour force education level
- 34 High-tech employment
- 35 Access to and use of digital technologies
- 36 Innovation capabilities in adopting new technologies
- 37 Business networks and clusters
- 38 Value chain breadth
- 39 Company spending on R&D or R&D expenditure as a percentage of GDP

Climate Change Policy

To understand the regional diversity of climate change policy, following indicators can be of interest:

- 40 UN SDG indicators
- 41 Regional indicators for the Sustainable Development Goals
- 42 ESPON's SDGs benchmarking
- 43 Socio-economic costs associated with green transition
- 44 Greenhouse gas emissions
- 45 CO2 emissions per capita
- 46 Carbon intensity of the regional economy or employment in fossil fuel sectors
- 47 Renewable energy production
- 48 Risk of natural hazards
- 49 Soil sealing
- 50 Air, water and soil pollution
- 51 Biodiversity indicators
- 52 Occurrence of extreme weather events (precipitation per m2, heat waves, drought)

European Pillar of Social Rights

To understand the regional diversity concerning the Pillar of Social Rights, following indicators can be of interest:

- 53 EU Social Progress Index
- 54 Wellbeing indicators
- 55 Unmet medical needs
- 56 Health services per 100 000 inhabitants (MDs, hospital beds)

- 57 Healthy life expectancy at birth
- 58 Burdensome cost of housing
- 59 Safety at night
- 60 Early school-leavers
- 61 Freedom of media
- 62 Subjective health status
- 63 Life expectancy
- 64 Exposure to environmental hazards
- 65 Trust and governance
- 66 Trust in the judicial system
- 67 Female participation in regional assemblies
- 68 Tolerance towards immigrants, minorities, LGBTQ+
- 69 Freedom over life choices

Cohesion policy plays a crucial role in promoting economic, social and territorial cohesion among the EU Member States' regions. Despite efforts to reduce regional inequalities, challenges persist.

This study identifies three main challenges in addressing regional inequalities. First, there is a lack of coordination and coherence between cohesion policy and other policies. Second, positive impacts of cohesion policy are not distributed evenly across regions. Third, the growing number of instruments leads to increased administrative complexity.

A coordinated policy approach could be more effective in tackling regional inequalities. This is explored through four policy scenarios and an assessment of their impacts. Finally, the study investigates the cost of non-Europe, that is, the impact of taking no further action at EU level to reduce regional inequalities.

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