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Territorial Cohesion Policy
and EU Budget

COTER

# Cohesion Policy and the Single Market: the cost of non-cohesion

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# Acronyms

| | |
|---|---|
| CF | Cohesion Fund |
| CLLD | Community Lead Local Development |
| CoR | European Committee of the Regions |
| EEC | European Economic Community |
| EGTC | European Grouping of Territorial Cooperation |
| EMU | European Monetary Union |
| ERDF | European Regional Development Fund |
| ESF | European Social Fund |
| ESIF | European Structural Investment Fund |
| EU | European Union |
| EUSAIR | European Union Strategy for the Adriatic-Ionian Region |
| EUSALP | European Union Strategy for the Alpine Region |
| EUSBSR | European Union Strategy for the Baltic Sea Region |
| EUSDR | European Union Strategy for the Danube Region |
| GDP | Gross Domestic Product |
| GDPR | General Data Protection Regulation |
| GNP | Gross National Product |
| ICT | Information and Communication Technology |
| JTF | Just Transition Fund |
| R&D | Research and Development |
| SEGI | Services of General Economic Interest |
| SME | Small and Medium-sized Enterprises |
| TEN-T | Trans-European Transport Network |

# Executive summary

The world faces major economic, social, technological, political and environmental challenges that shape the everyday life of people and businesses. The European Union (EU) has a strong potential to deal with such challenges and ensure a just future for all its places and people (TA2030, 2020). Among others, the EU has two powerful tools for this, the Single Market and Cohesion Policy. Although Cohesion Policy has helped to reduce disparities, there are still inequalities in the EU which risk undermining its future prosperity (European Commission, 2022b). In the coming years, economic growth in the EU will be driven by the twin green and digital transitions, which will bring new opportunities. At the same time significant changes are likely to create new regional disparities (European Commission, 2022b). Only a strong Cohesion Policy can ensure that no one and no region is left behind since a lack of inclusion may lead to more inequalities and Euroscepticism.

This study aims to open a dialogue among policy makers and feed discussions on the future of Cohesion Policy. It looks to inform decisions about possible futures based on shared EU values that shape both the Single Market and Cohesion Policy. To do so, this study looks into the historical evolution of the Single Market and Cohesion Policy. It also links member state contributions to the EU budget and funding from Cohesion Policy, as well as the latter's economic and non-economic spill overs. Furthermore, the study presents three future scenarios for Cohesion Policy and offers conclusions and recommendations. The research questions addressed in this study are:

**What were the underlying reasons for establishing the Single Market and Cohesion Policy in the run up to the Maastricht Treaty?**

The EU is a sui generis supranational union of states that share values and ideals. Since the creation of the European Coal and Steel Community and even today, the Union has adapted to changing times. Two of the key achievements of the EU are the Single Market and the development of a strong Cohesion Policy. The 1957 Treaty of Rome set the key priorities of the – back then – European Economic Community. It sets the goal for a common market based on the free movement of goods, people, services and capital and set the basis for the harmonious development of economic communities across the entire area (Treaty of Rome, Art. 2, 3). The common market would be accomplished by abolishing obstacles to the free movement of people, goods, services and capital, including eliminating customs and ensuring freedom of competition. Harmonious development would be accomplished through budgetary instruments to support development in regions across the Community.

Institutional change in the Commission was another driver for regional policy. The Merger Treaty of 1965 resulted in a new Directorate General for Regional Policy in 1968 (Bachtler, Mendez, & Wishlade, 2013). At the same time, a customs union started to evolve. In 1968 all customs duties and restrictions were lifted between the, back then, six members of the European Communities (renamed as of the Merger Treaty) and a common customs tariff replaced national customs.[1]

In the context of creating the European Monetary Union (EMU), which was expected to increase disparities, as well as the first enlargement of the Community, the Paris conference of the Heads of State in 1972 gave great importance to regional policy and looked to find a common solution to regional problems (Bachtler, Mendez, & Wishlade, 2013). Following the 'Thomson Report' (Commission of the European Communities, 1973) and several negotiations among the member states of the time, the European Regional and Development Fund (ERDF) was created in 1975 by Regulation (EEC) No 724/75. Although at the time it was a small fund, it set the basis for further changes, which were the first step towards the radical reform of institutionalising regional policy as Cohesion Policy in the late 1980s. As for the Single Market, between 1985 and 1992 several Directives and Regulations removed technical, legal and administrative barriers that hindered free trade and movement.[2]

Nevertheless, it would take until 1986 and the signature of the Single European Act for both the Single Market and Cohesion Policy to have a Treaty basis and then only in 1993 with the entry into force of the Maastricht Treaty for both to be officially established. The widening of regional disparities in the EU during the 1980s was also due to the accession of Greece (1981), Spain and Portugal (1986) which were facing high unemployment, agricultural dependence and low levels of competitiveness. Moreover, the nine EEC countries were in the middle of a major economic crisis following the 1st and 2nd oil shocks. Unemployment was on the rise in major ECC economies, first big closure of traditional industries all over the EEC (coal mining, steel etc.) were adding to the economic downturn. At that time, two inspirational reports, the Padoa-Schioppa Report (Padoa-Schioppa, 1987) and the Cecchini Report (Commission of the European Communities, 1988) both argued that regional imbalances could hinder the path to the internal market. To reap the maximum benefits, it would be necessary to support disadvantaged regions.

[1] For more information, see: https://taxation-customs.ec.europa.eu/history-eu-customs-union_en

[2] For more information, see: https://www.consilium.europa.eu/en/infographics/30-years-of-the-eu-single-market/

As a result, the Single European Act came into effect in 1987 aiming to complete the internal market by 1992, setting a timeline for economic integration and a single currency (European Parliament, 2023b). It marked a pivotal moment in the evolution of the Single Market and Cohesion Policy. Central to the realisation of Treaty ambitions and in particular to financial reforms was the Jacques Delors Commission and its fundamental reforms of 1988 and 1993, also known as the Delors Package I and the Delors Package II.

While the Single Market was achieved in January 1993, the next important reform of Cohesion Policy took place following the signature (1992) and coming into force (1993) of the Maastricht Treaty on European Union. The Treaty introduced major institutional and policy changes with profound impacts on European integration.

**Are these underlying reasons for a strong link between Cohesion Policy and the Single Market still valid and how has the scientific debate evolved since then?**

Following the fundamental changes of the Maastricht Treaty and in a continuously changing world, the Single Market and Cohesion Policy adapted further to new challenges and changes such as rising unemployment, as well as the next EU enlargement with Austria, Finland and Sweden joining in 1995, globalisation, new technologies and the prominence of environmental issues in policy agendas. The next important reforms were in 1999, with the ‘Agenda 2000’ guiding policy reforms, the preparation for the biggest EU enlargement in 2004 and the future financial framework. Continuous challenges such as slow growth in the late 1990s led to the adoption of the Lisbon Strategy for economic growth in 2000, whose targets were ambitious for member states (having to meet the three declared objectives to (1) deepen the Single Market (2) draw the consequences of the establishment of the EMU and the adoption of the single currency (3) both response and reinforce the strength of the EU in the globalisation). In the context of these challenges and changes, the Single Market and Cohesion Policy deepened further. Since 1985 the Single Market has taken steps towards ‘widening’ the economic activities by EU legislation it covers and ‘deepening’ the *acquis* for more integration (Micossi, 2016). At the same time, Cohesion Policy has continued addressing regional disparities across the EU. A new phase for Cohesion Policy was introduced in 2009 with adoption of the Lisbon Treaty when the term ‘territorial’ was added to economic and social cohesion (Art. 174).

Since then, Cohesion Policy has aimed to strengthen solidarity among member states by focusing on reducing the economic, social and territorial disparities that still exist within the EU with a place-based approach. It transformed from what was viewed as a limited budgetary transfer mechanism to a regional development tool in order to address potential uneven economic and social impacts of the internal market (Bachtler, Mendez, & Wishlade, 2013). The development of the Single Market required measures to counteract its negative effects as market liberalisation was expected to lead to concentrated economic growth, resulting in increased regional imbalances. The need for accompanying measures to facilitate adjustments in structurally weak member states and regions became an increasing priority (Bachtler, Mendez, & Wishlade, 2013). In short, Cohesion Policy has contributed to helping all regions to fully participate in and benefit from the opportunities provided by the Single Market.

From this point onwards, Cohesion Policy has complemented and thus strengthened the EU by facilitating agreements and support for the Single Market. It also strengthens European integration by promoting a shared ideal of the European project based on community, social cohesion and equal opportunity (Bachtler, Mendez, & Wishlade, 2013). In this sense, Cohesion Policy has supported the functioning of the Single Market and EU integration for the past 30 years.

Cohesion Policy has adapted to the crises of recent decades, continuing to support regional development and addressing disparities. For the future, the twin green and digital transitions may pose further challenges to the Single Market and Cohesion Policy (European Commission, 2022b). Currently, there are debates on the future of Cohesion Policy and the Single Market and interesting inputs are expected in the near future. A group of high-level specialists was established in late 2022. Their discussions on the future of Cohesion Policy will be concluded in early 2024. These touch on several elements of Cohesion Policy, while an independent report on the future of the Single Market from Enrico Letta is expected in 2024, as requested by the Council of Ministers.

**How has Cohesion Policy contributed to the success of the Single Market across the EU and what were the spill over effects of Cohesion Policy spending on the Single Market?**

Cohesion Policy interventions have played a significant role by supporting the involvement of local and regional players in the Single Market. It has improved access to goods and services through physical and digital infrastructure, increasing connectivity and fostering cooperation. Furthermore, Cohesion Policy has boosted local economies and attractiveness by improving innovation and entrepreneurship through support for SMEs, as well as reinforcing human capital with training and education, improving growth and competitiveness. This support enables EU cities and regions to realise their potential and increase competitiveness as well as foster research, development and technology transfer. Last but not least, Cohesion Policy has supported good governance, cooperation and administrative efficiency to ensure smooth facilitation of the Single Market and fair competition across all regions. Building consumer trust, ensuring smooth interactions within the Single Market, as well as investing in institutional capacity and efficiency have contributed to building good governance across the EU.

Any targeted intervention or investment of Cohesion Policy can have different effects on territories, sectors and policy areas. These can extend beyond the primary beneficiaries of the funding and affect other regions, sectors and policy areas or even the wider economy within and outside the region. Such spill overs can be intentional or unintentional and positive or negative for regional development. The leading theory on economic spill over effects notes a 'ripple-phenomenon' where economic growth induced by the policy generates spill over effects beyond the target. These spill overs result from trade relations, technological improvements as well as reallocated labour and capital between regions and countries. Considering such spill overs is crucial, with several approaches depending on the economic theory applied. Some theories suggest that supporting less developed regions is preferable as spill over effects increase growth in stronger regions. Other theories argue that support is better allocated to economically strong growth poles, as less developed regions benefit more from spill overs than from direct funding.

Non-economic spill overs include the availability and equal access to basic public services for citizens regardless of their residence. The availability and access to these services has been supported by Cohesion Policy through, inter alia, improved transport infrastructure, sustainable mobility, broadband and ICT investments along with support for digital skills and competences. Such investments may create a pull-effect for people from economically disadvantaged regions to stronger regions (Gløersen, Drăgulin, Haarich, Zillmer, Holstein, Lüer, & Hans, 2016). Cohesion Policy also influences national policies and spending, by setting policy orientations and objectives. Cohesion Policy programmes follow these, tailoring them to their territories. Lastly, governance-related spill overs are linked to administrative policy learning, institution building and enhancing governance across national and regional administrations, through Cohesion Policy and its implementation in the territories.

**What is the link between member states contributing to the EU budget (i.e. for Cohesion Policy) and their benefits from the Single Market?**

Analysing the per capita relationships between member state annual EU budget contributions and Cohesion Policy allocations shows that countries with a lower GDP receive a higher annual Cohesion Policy allocation. They contribute less to the EU budget whereas member states with a higher GDP provide a higher contribution to the EU budget and receive less Cohesion Policy funding.

Apart from the correlation between national GDP and Cohesion Policy allocation (the lower the GDP the higher the contribution per capita) which was the fundamental political choice made in the 80s , it is noteworthy that GDP has become the decisive factor for the revenue e side of the EU budget as well, because of the lack of genuine own resources. The European Commission has stated that Member States contributing more to the EU budget than they receive directly actually pay less on average than other Member States in percentage of their wealth (gross national income – GNI), while they are among the biggest beneficiaries of the single market and the EU integration[3]. In other words, the reaping of benefits through the Single Market has not been reflected in an increase in contributions to the EU budget by the net-paying member states. As for the expenditure side this means that given the increasing share of Cohesion Policy funding in the EU budget over the years, a wider part of the EU budget is indeed spent in those member states which have a lower GDP. What has to be noted as well, is the fact that unlike Cohesion Policy, centrally managed programmes (such as Horizon Europe or Erasmus or programs in the field of external relations) are "GDP blind" - i.e. are not taking into consideration the “need” for income differentiated distribution.

Cohesion Policy still is reducing development disparities and promoting economic and social convergence. However, reducing disparities and promoting convergence takes time. Member states with a higher GDP per capita, even if their annual contribution to the EU budget is higher, benefit more from the Single Market than member states with a lower GDP per capita.

**What would be the cost of no-cohesion for the future Single Market based on three scenarios (Scenario 1: Cohesion Policy for all regions; Scenario 2: Cohesion Policy only for less developed regions; Scenario 3: Cohesion Policy only for less developed member states)?**

The study has developed three scenarios for a future Cohesion Policy to further understand the impact of the policy on different types of territories and identify possible benefits and implications.

i. **Cohesion Policy for all regions.** This scenario looks into a future Cohesion Policy where all EU regions are eligible for funding. In this scenario, Cohesion Policy continues as the key policy for regional development. Despite the fact that all regions will benefit from funding, disparities between regions are likely to persist. Yet the major green, digital and demographic transitions may create new disparities, increase demands on

[3] https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/revenue/own-resources/national-contributions_en

national and local authorities, feed popular discontent and put pressure on our democracies (European Commission, 2022b).

ii. **Cohesion Policy only for less developed regions (GDP per capita, 2021, <75% of EU average).** This scenario looks into a future Cohesion Policy where only less developed regions (GDP per capita, 2021, <75% of EU average) receive funding. Resource allocation may be optimised and dedicated to those regions in most need, however, regions that do not receive support may oppose this. Inequalities within member states and their regions could further affect internal coherence and the functioning of the EU. The Single Market may be enhanced, as less developed regions will be strengthened, but there may also be frictions and enhanced competition with more developed regions.

iii. **Cohesion Policy for less developed member states (GDP per capita, 2021, <75% of EU average).** This scenario looks into a future Cohesion Policy where only less developed member states (GDP per capita, 2021, <75% of EU average) are eligible for funding. Resource allocation may support growth in the member state as a whole. It could, however, increase intra-state disparities if funding is directed to high growth regions. There may be a mixed picture for territorial cohesion, as some territories could reap more benefits from the support than others. The Single Market could be challenged, as intra-state disparities may not allow the four freedoms to operate fully.

The three scenarios highlight that economic, social and territorial disparities may remain even with Cohesion Policy support (European Commission, 2022b) with diverse implications for different types of EU territories. In addition, the implications presented in the scenarios show that Cohesion Policy remains necessary for all regions to avoid territorial imbalances. Lastly, they highlight that Cohesion Policy needs to be resilient and adjust to new challenges, changes and developments (see Chapter 6).

**How could stronger cooperation between cities and regions within the EU strengthen the effectiveness of the Single Market?**

Cooperation between region and cities, be it transnational, cross-border, interregional or macro-regional, is key to the EU's growth and development, as well as the effective functioning of the Single Market. Cooperation between region and cities through synergies and optimised funding allocation can enhance economic integration, with regions pooling resources for common objectives to achieve more. Cooperation may also bring more knowledge transfer across regions, strengthening resilience and synergies. Cooperation strengthens sustainable development, as well as social and economic cohesion. This results in a more integrated and competitive EU, which enhances Single Market effectiveness. Although the Single Market, European funding and EU enlargement have contributed to enhanced cooperation and integration, there is still room for improvement. This imperfect integration may be costly, as the full potential of cooperation is untapped. More mutual trust, fewer administrative barriers and more capacity building are needed. Instead of focusing cooperation on players or regions with comparative advantages, which may result in competition between regions, expanding cooperation beyond national borders towards the private sector will enhance knowledge creation and exchanges, unlocking further potential.

**What recommendations can be made for the future of Cohesion Policy in this context?**

The study has identified the following policy recommendations:

- **Keep all regions eligible for Cohesion Policy,** as limiting eligibility to only some regions may increase disparities.
- **Strengthen the Single Market and Cohesion Policy** to help Europe's future prosperity, competitiveness and social peace, especially during major transformations such as the green and digital transition, the role of the EU in the world etc.
- **Think beyond Cohesion Policy to support cohesion as a value,** pushing for cohesion as an underlying value of all policies and strengthening synergies and complementarities between EU policies**.**
- **Better understanding of the economic and non-economic spill over effects of Cohesion Policy.**
- **Place-based knowledge and stakeholder involvement to remain** as important anchors of Cohesion Policy. Targeting investments to support development, overcome development traps and help lagging places requires place-based knowledge and stakeholder involvement.
- **Adjust to changing circumstances**, by continuing to spur the green and digital transitions as drivers for growth, by cooperating on EU industrial policies, anticipating an ageing society and addressing geopolitical shifts.
- **Monitor the benefits of Cohesion Policy and the Single Market with a standardised approach,** by developing a methodology and conducting regular assessments, as well as considering changes to policies to further improve their benefits for European citizens and places.

To conclude, the study has shown that Cohesion Policy cannot shoulder the cohesion objective alone. For this, the EU needs more than policies, it needs a clear and shared vision of where it wants to go as well as what it wants to do and be. This vision should be a guiding beacon to help the EU navigate the uncertainty of the future, with a defined purpose and values at its core. This should also allow for rethinking the duration of the multiannual financial framework, as a seven-year planning horizon does not correspond to the need of attentiveness and responsiveness in a quickly changing world of “permanent crisis”. Instead, it should be a roadmap for the long term, true to EU citizen’s shared aspirations and ideals.

# 1 Introduction

The world today faces major economic, social, technological, political and environmental challenges that shape the everyday life of people and businesses. The EU has a strong potential to deal with such risks and ensure a just future for all its places and people (TA2030, 2020). Among others, the EU has two powerful tools for this, the Single Market and Cohesion Policy. Although Cohesion Policy has helped to reduce disparities, there are still inequalities in the EU which risk undermining its future prosperity (European Commission, 2022b). In the coming years, growth in the EU will be driven by the twin green and digital transitions. These will bring new opportunities and at the same time require significant changes, which are likely to create new regional disparities (European Commission, 2022b). Only a strong Cohesion Policy can ensure that no one and no region is left behind, since a lack of inclusion may lead to more inequalities and Euroscepticism.

## 1.1 Background

Cohesion Policy has played a crucial role in complementing the Single Market and fostering European integration. As stated in the European Parliament Cohesion Policy review 2015, '*the fact that cohesion policy is developing synergies with other EU policies such as the digital single market, the energy union, the single capital market and social policy … is substantially contributing to the strengthening of the single market.*'[4]

This study briefly describes the evolution of Cohesion Policy and the Single Market. It also looks into Cohesion Policy interventions over time and discusses the economic and non-economic spill overs. Lastly, the study explores three options in the form of scenarios, for the future of Cohesion Policy with their implications and concludes with recommendations.

## 1.2 Aim of the study

The study was conducted from June 2023 to January 2024. It feeds into the work on the European Committee of the Regions Opinion on the future of Cohesion Policy, the annual debate on the State of the Regions and Cities in the EU and the debate on further completion of the Single Market, building on its 30th anniversary. It should also contribute to the work of the Cohesion Alliance.

[4] For more information, see: https://www.europarl.europa.eu/doceo/document/TA-8-2015-0384_EN.html; paragraph 7

Furthermore, this work could be useful for the European Committee of the Regions Opinion in view of the debate on the next Strategic Agenda 2024-2029 and political guidelines of the next European Commission 2024-2029.

## 1.3 Structure of the report

Further to the executive summary and the introduction, the report has five more chapters. These follow the evolution of the Single Market and Cohesion Policy, their progress and developments, as well as scenarios for possible future development. The report concludes with findings and recommendations for future action.

Chapter 2 reviews the historical evolution of the Single Market and Cohesion Policy.

Chapter 3 looks into Cohesion Policy interventions over time. These include improved access to market through infrastructure as well as social inclusion strengthening local economies and improving location factors, supporting innovation, SMEs and human capital, along with governance through capacity building, territorial cooperation and territorial tools.

Chapter 4 links member state contributions to the EU budget and the share they receive from Cohesion Policy. It looks at how far key contributors benefit from the Single Market and Cohesion Policy and possible economic and non-economic spill over effects.

Chapter 5 presents three future scenarios for Cohesion Policy, namely Cohesion Policy for i) all regions, ii) less developed regions (GDP per capita, 2021, <75% of EU average), iii) less developed member states (GDP per capita, 2021 <75% of EU average).

Chapter 6, the last chapter of the report, summarises key elements of the report, giving food for thoughts on the future development of the Single Market and Cohesion Policy, concluding with recommendations for the future.

# 2 Overview of the scientific narrative of the Single Market and Cohesion Policy

The political context in which Cohesion Policy and the Single Market has evolved dramatically over time which had some consequences on the relationship between the two. The evolution of the Single Market and Cohesion Policy is presented below along with the current scientific debate.

The complex relationship between Cohesion Policy and the Single Market will be explored, seeking to understand the underlying reasons for a strong link between them in the past, today, and tomorrow.

Section 2.1 offers a short overview of the parallel development and establishment of the Single Market and Cohesion Policy, by presenting key highlights and steps of this development. Section 2.2 presents Single Market's four freedoms in a nutshell, and section 2.3 presents shortly the various Cohesion Policy's programming periods.

## 2.1 Establishment of the Single Market and Cohesion Policy

The EU is a sui generis supranational union of states that share values and ideals. Since the creation of the European Coal and Steel Community and even today, the Union has adapted to changing times. Two of the key achievements of the EU are the Single Market and the development of a strong Cohesion Policy. This section will briefly go through the parallel development of the two. The next two sections will go deeper into their evolution over time.

The 1957 Treaty of Rome set the key priorities of the – back then – European Economic Community. It set the goal for a common market based on the free movement of goods, people, services and capital and set the basis for the harmonious development of economic communities across the entire area. More specifically, in its Article 2, the Treaty of Rome states that "*the task of the Community is to create, through the establishment of a common market, harmonious development of economic life within the Community, constant and balanced economic expansion, greater stability, increased living standards and closer relations between the (member) states*". Furthermore, Article 3 sets out that the activities of the Community are among others the establishment of a common market and a unified economic area, facilitating the free movement of people, goods, services and capital (Treaty establishing the European Economic Community, 1957).

The common market would be accomplished by abolishing obstacles to the free movement of people, goods, services and capital, including eliminating customs and ensuring free competition. Harmonious development would be accomplished through budgetary instruments to support development in regions across the Community. A first step in that direction was the creation of the European Social Fund (ESF) in 1957 to support employment possibilities. More specifically, Article 3(i) lists among the activities of the European Economic Community the creation of a European Social Fund to improve the employment opportunities of workers and help raise their living standards. This is established in Article 123 of the Treaty of Rome to promote professional employability and the local and professional movements of workers within the Community (Treaty establishing the European Economic Community, 1957).[5]

The institutional change in the Commission was another driver for regional policy. The Merger Treaty of 1965 resulted in the creation of a new Directorate General for Regional Policy in 1968 (Bachtler, Mendez, & Wishlade, 2013). At the same moment, there were developments towards a customs union. In 1968 all customs duties and restrictions were lifted between the, back then, six members of the European Communities (renamed as of the Merger Treaty) and a common customs tariff replaced national customs.[6]

In 1972 in the context of creating the European Monetary Union (EMU), which was expected to increase disparities, as well as the first enlargement of the Communities, the Paris conference of the Heads of State gave great importance to regional policy and wished to find a common solution to regional problems (Bachtler, Mendez, & Wishlade, 2013). Following the 'Thomson Report' (Commission of the European Communities, 1973) and several negotiations among the member states of the time, the European Regional and Development Fund (ERDF) was created in 1975 by the Regulation (EEC) No 724/75. Article 1 of this ERDF Regulation highlights that ERDF is '*intended to correct the principal regional imbalances within the Community resulting in particular from agricultural preponderance, industrial change and structural underemployment*'. Over the years, ERDF became the key funding instrument for regional policy (more information on ERDF can be found in section 2.3).

Although at the time it was a small fund, it set the basis for further reforms and the creation of a regional policy instrument, the Integrated Mediterranean

5 *...ein Europäischer Sozialfonds errichtet, dessen Zweck es ist, innerhalb der Gemeinschaft die berufliche Verwendbarkeit und die örtliche und berufliche Freizügigkeit der Arbeitskräfte zu fördern*. (Art. 123 Treaty of Rome - https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:11957E/TXT

[6] For more information, see: https://taxation-customs.ec.europa.eu/history-eu-customs-union_en

Programmes (1985)[7], which were the first step towards the radical reforms of institutionalising regional policy to Cohesion Policy in the late 1980s. As regards the Single Market, between 1985 and 1992 several Directives and Regulations were adopted to remove technical, legal and bureaucratic barriers that hindered free trade and movement.[8]

The widening of regional disparities in the EU during the 1980s was also due to the accession of Greece (1981), Spain and Portugal (1986) which were facing high unemployment, agricultural dependence and low levels of competitiveness. Moreover, the nine EEC countries were in the middle of a major economic crisis following the 1st and 2nd oil chocks. Unemployment was on the rise in major ECC economies, first big closure of traditional industries all over the EEC (coal mining, steel etc.) were adding to the economic downturn. In addition, two inspirational reports, the Padoa-Schioppa Report (1987) and the Cecchini Report (1988) both argued that regional imbalances may further hinder the path to the internal market. To reap the maximum benefits, it will be necessary to support disadvantaged regions. These were the determining factors that led to the fundamental Treaty reform (Bachtler, Mendez, & Wishlade, 2013).

The Single European Act came into effect in 1987 aiming to complete the internal market by 1992, setting a timeline for economic integration and a single currency (European Parliament, 2023). It also established the legislation for Cohesion Policy. The Single European Act marked a pivotal moment. It emphasised the need for harmonisation of laws and the removal of barriers to the free movement of goods, services, capital and people (Jouen, 2014). More specifically, the Treaty of Rome is supplemented with the introduction of new Article 8a:

'*The Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992, in accordance with the provisions of this Article and of Articles 8b, 8c, 28, 57 (2), 59, 70 (1), 84, 99, 100a and 100b and without prejudice to the other provisions of this Treaty. The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty.*' (Single European Act, 1987)

In addition, the Single European Act provides in Article 130a:

'*In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular the Community shall aim at reducing disparities*

7 the founding of the IMP was also a response to accommodate the enlargement of Portugal, Spain and Greece.

8 For more information, see: https://www.consilium.europa.eu/en/infographics/30-years-of-the-eu-single-market/

*between the various regions and the backwardness of the least-favoured regions'*. (Single European Act, 1987).

And Article 130c of the Treaty gives a legal basis to the ERDF:

'*The European Regional Development Fund is intended to help redress the principal regional imbalances in the Community through participating in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions.*' (Single European Act, 1987).

The Jacques Delors Commission introduced two fundamental reforms in1988 and 1993, also known as the Delors Package I and the Delors Package II.

The Commission Communication 'Making a success of the Single Act: a new frontier for Europe' (Commission of the European Communities, 1987), also known as the Delors Package I communication, highlighted in its introduction that, to meet the Treaty responsibilities, the Community would need to implement the following reforms:

'*…the reform of the common agricultural policy to take account of new production and trade conditions, the reform of the structural funds to make of them instruments of economic development, and the reform of the financing rules to ensure a budgetary discipline as rigorous as that which the member states impose upon themselves.*' (Commission of the European Communities, 1987).

As a result, Delors Package I proposed to reform the structural funds (back then ERDF and ESF). The funds would focus on five key objectives.[9] Furthermore, funding would be concentrated on less-developed regions of the Community for objectives 1 and 2, while for the other objectives all member state territories would be eligible. In addition, the support would be based on programmes instead of projects and it was proposed that Structural Funds appropriations would double by 1992 (eventually after negotiations the doubling was agreed by 1993, to be implemented by 1999 – corresponding to the life cycles of the two Delors Packages: 1st Package 1988-1993, 2nd Package 1993-1999). Furthermore, the reforms improved the governance of the programmes, by introducing some predictability and long-term vision (multi-annual planning and programming) and

9 The objectives were: Objective 1: achieving growth in regions showing structural backwardness, Objective 2: converting declining industrial regions by helping them to develop new activities, Objective 3: combating long-term unemployment, Objective 4: integrating young people into employment and Objective 5: speeding up the adjustment of agricultural production structures and encouraging rural development.

strengthened monitoring (ex-ante and ex-post evaluations) (Bachtler et al., 2013a).

Another important element of Delors Package I was the introduction of the partnership principle, as '[programmes] *will lead to decentralization of Community action by giving maximum scope for local or regional initiatives, which are the most effective for investment and employment. Programmes will involve contracts between the Community, the member states and the regions. They will involve joint preparation, monitoring and assessment, and they will thus lead to a fully-fledged partnership*' (Bachtler, Mendez, & Wishlade, 2013); Commission of the European Communities, 1987).

The next important reforms for Cohesion Policy took place in the context of a major Treaty reform with the signature (1992) and coming into force (1993) of the Maastricht Treaty on the European Union (Treaty on European Union, 1992). During the lead-up to the Maastricht Treaty in 1993, Jacques Delors emphasised that Cohesion Policy played a vital role in ensuring that all citizens and regions could fairly benefit from the Single Market. The Maastricht Treaty in its Article 2, specifies:

'*The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among member states.*' (Treaty on European Union, 1992)

Article 3 of the Maastricht Treaty sets out that the activities of the Community shall (among others) include:

*'(a) the elimination, as between member states, of customs duties and quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect;*

*(c) an internal market characterized by the abolition, as between member states, of obstacles to the free movement of goods, persons, services and capital;*

*(g) a system ensuring that competition in the internal market is not distorted;*

*(j) the strengthening of economic and social cohesion;*' (Treaty on European Union, 1992)

The Commission Communication 'From the Single Act to Maastricht and beyond. The means to match our ambitions' (Commission of the European Communities, 1992), praises the positive outcomes from earlier reforms and puts forward ambitions to meet the Maastricht Treaty goals. To achieve full economic integration and take '*full advantage of an organised economic area and a single currency*', the Commission proposed for 1993 to 1997 '*to create the conditions for economic convergence needed to make the transition to the final stage of Economic and Monetary Union on 1 January 1997 and, second, to make our economies and our businesses more competitive.*' (Commission of the European Communities, 1992). A competitive economy and a cohesive Europe became key priorities. To meet these new ambitions, the Delors Package II was agreed by heads of States and Governments. They agreed on the financial perspectives for the period 1993-1999 which have two fundamental features: the doubling of Structural Funds (compared to previous period 1988-1993) and an increased ceiling of own resources.[10]

The Maastricht Treaty also foresaw the creation of a new fund: the Cohesion Fund (more information on Cohesion Fund can be found in section 2.3). Article 130d, states:

'*The Council, (...), shall before 31 December 1993 set up a Cohesion Fund to provide a financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure.*' The Cohesion Fund would support '*less prosperous member states (with a per capita GNP of less than 90% of the Community average)*' (Treaty on European Union, 1992).

In the 1994 White Paper 'Growth, Competitiveness, Employment', the Commission states that:

'*Experience has also shown, however, that the market is not without its failings, it tends to underestimate what is at stake in the long term, the speed of the changes it creates affects the different social categories unequally, and it spontaneously promotes concentration, thereby creating inequality between the regions and the towns. Awareness of these insufficiencies has led our countries to develop collective solidarity mechanisms. At Community level the Single European Act has helped to restore the balance in the development of the single market by way*

[10] For more information, see: https://www.europarl.europa.eu/factsheets/en/sheet/29/multiannual-financial-framework

*of joint flanking policies as part of economic and social cohesion.'* (European Commission, 1994, p. 15)

The next important reforms were implemented in 1999, with the adoption of the 'Agenda 2000'which aimed at preparing the EU for its biggest enlargement in 2004 and at adapting the future financial framework 1999-2006. Continuous challenges such as slow growth in the late 1990s led to the Lisbon Strategy for economic growth in 2000, whose targets were ambitious for member states (having to meet the three declared objectives to (1) deepen the Single Market (2) draw the consequences of the establishment of the EMU and the adoption of the single currency (3) both response and reinforce the strength of the EU in the globalisation process).

With the entry into force of the Lisbon Treaty in 2009, the term territorial was added next to economic and social cohesion (Art. 174):

'*In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions.*' (Treaty of Lisbon, 2007)

Cohesion Policy aims to strengthen solidarity among member states by emphasising the socioeconomic characteristics of regions. It transformed from what was viewed as a limited budgetary transfer mechanism to a regional development tool in light of the expected uneven effects the new internal market (Bachtler, Mendez, & Wishlade, 2013) as widely described in both the Thomson (Commission of the European Communities, 1973) and the Padoa-Schioppa Report (Padoa-Schioppa, 1987). The development of the Single Market required measures to counteract its negative effects as market liberalisation was expected to lead to concentrated economic growth, resulting in increased regional imbalances. The need for accompanying measures to facilitate adjustments in structurally weak member states and regions has become an increasing priority (Bachtler, Mendez, & Wishlade, 2013). In short, the aim of Cohesion Policy is to ensure that all regions can fully participate in and benefit from the opportunities provided by the Single Market.

From this point onwards, Cohesion Policy has been instrumental in both expanding and strengthening the EU by facilitating agreements and support for the Single Market. It also strengthens the process of European integration by promoting a shared ideal of the European project based on community, social cohesion and equal opportunity (Bachtler, Mendez, & Wishlade, 2013). In this sense, Cohesion Policy has supported the functioning of the Single Market and EU integration for the past 30 years.

## 2.2 The four Single Market freedoms in a nutshell

The Single Market has widened and deepened over the years, adjusting to the times and challenges. This has included the liberalisation of key sectors such as telecommunications, energy and transport. Market-opening measures increased internal competition within the EU, enhanced consumer choice and fostered innovation within the EU.[11]

The core objective of the Single Market has always been to create a unified and borderless economic space among EU member states, allowing for the free movement of goods, services, capital and people. These four freedoms are fundamental to the functioning of the Single Market and each has a distinct but complementary logic.

- **The free movement of goods** was achieved by eliminating customs duties, quantitative restrictions and equivalent barriers. Harmonisation of laws has been essential, including mutual recognition, the removal of technical barriers and standardisation, to allow the free circulation of goods within the EU. Completing the internal market requires addressing non-tariff barriers and adapting to technological progress (Ratcliff, Wosyka, Martinello, & Franco, 2023).
- **The free movement of capital** aims at promoting a more integrated financial market by allowing the free movement of investment across EU borders. The liberalisation of capital flows has progressed gradually, with restrictions on movements and payments between member states and third countries being removed under the Maastricht Treaty. The goal is to remove all restrictions on capital movements, support the Single Market and contribute to economic growth and the international role of the euro (Scheinert, 2023). In reality this freedom is not yet fully implemented by now.
- **The free movement of services**, or the freedom of establishment and to provide services, allows businesses and self-employed people to move and operate freely within the EU. It ensures the freedom to engage in self-employment and establish and manage businesses on a permanent basis

[11] For more information, see: https://single-market-economy.ec.europa.eu/single-market/single-market-strategy_en#:~:text=The%20single%20market%20is%20at,or%20study%20wherever%20they%20wish.

under the same conditions as nationals of the member state where they wish to operate (Ratcliff, Wosyka, Martinello, & Franco, 2023). In reality this freedom is not yet fully implemented by now.

- **The free movement of people** allows EU citizens to move and work in other EU countries with equal treatment. This includes the right to live and work permanently or temporarily, and to be treated on a par with locals. In principle, this freedom applies to all citizens of all member states (Kennedy & Fiorucci, 2023).

The rationale behind these four freedoms is to create a level playing field for businesses, encourage innovation and entrepreneurship, as well as foster economic cooperation and integration among EU member states. By removing barriers and promoting open competition, the Single Market seeks to ensure fair and efficient allocations of resources, leading to economic prosperity and fostering social conditions within the EU. However, substantial obstacles remain. This includes different administrative systems, national economic protectionism as well as cultural and historical differences that restrict the four freedoms. Since the Cecchini Report there has been established a body of literature on these phenomena – see e.g. Erixon et Georgieva (2016), Oggioni et Smeers (2013) for the energy market.

The harmonisation and mutual recognition of standards has paved the way for benefits and opportunities for businesses and people within the EU. The Single Market enables businesses to effortlessly sell their products to a vast market, of over 450 million people. By eliminating barriers, the EU has seen a remarkable increase in trade. To put this into perspective; the trade among Member States accounted for EUR 671 billion in 1993 and rose to more than EUR 3.4 trillion in 2021 (European Parliament, 2023a).

Beyond economic advantages, the Single Market also brings benefits to EU citizens. One is the assurance of high product safety standards. With harmonised regulations, consumers can have confidence in the safety and quality of products they purchase. Moreover, the EU´s free movement of persons allows citizens to explore opportunities across member states. Whether studying, working, living, or retiring, EU citizens can choose and pursue their aspirations in any EU country (European Parliament, 2023a). As pointed out above, there are however still practical obstacles in some cases (e.g. transferability of pension schemes, national protectionism of certain sectors). The removal of banking fees and additional roaming costs aims to make crossing borders within the EU easier and these are examples of efforts to further deepen the Single Market by making it accessible.[12]

The current digital revolution presents new challenges and opportunities for the four freedoms of the Single Market. Recognising the need to adapt to the digital era, the EU launched the Digital Single Market Strategy in 2015. This aimed to create a digital-friendly environment within the Single Market, promoting cross-border e-commerce, ensuring fair competition and protecting consumer rights (European Commission, 2015a). Measures such as the General Data Protection Regulation (GDPR) were introduced to facilitate digital free trade and safeguard data privacy.

The four freedoms are often seen as the DNA or backbone of European integration. The evolution of the Single European Market involves changing focus and perception. Ongoing adaptations reflect the EU´s commitment to harnessing the potential of the Single Market to drive growth, innovation and prosperity across member states. For example, the European Green Deal, NextGenerationEU and the new EU Industrial Policy, especially the EU Net-Zero Industry Act of 2023, shape the Single European Market. Tagliapietra, Veugelers, & Zettelmeyer, (2023) argue that, for the New Industrial Policy to work efficiently, the Single Market needs to facilitate the transitions and be both open and competitive. Concerns shifted from facilitating business interactions within the Single Market to boosting the green transition and the global competitiveness of the EU.

The Single Market continued adapting to emerging economic, social, and technological trends. Ongoing efforts focus on deepening economic integration, promoting digital transformation and sustainable growth by supporting the green transition (European Parliament, 2023a). Within the EU, addressing global imbalances may impact internal competition and uneven support can create challenges for regions struggling to compete globally. While some trade and competition limitations are justified by public policy objectives, distinguishing them from provisions intended to distort competition is essential (Zuleeg, 2020). The European Single Market is built on the level playing field principle, but there are concerns about consistency between its internal and external dimensions. The COVID-19 crisis and the subsequent economic downturn has further distorted the Single Market through differential support to domestic companies via state aid (Zuleeg, 2020).

[12] For more information, see: https://europa.eu/youreurope/citizens/consumers/financial-products-and-services/payments-transfers-cheques/index_en.htm and https://europa.eu/youreurope/citizens/consumers/internet-telecoms/mobile-roaming-costs/index_en.htm#shortcut-4

## 2.3 Cohesion Policy programming periods in a nutshell

As has been pointed out in Section 2.1, the general idea of cohesion has always been a political aim within the EU and as such has been stipulated as counterbalance to and enrichment of the Single Market. Thus, Cohesion Policy has always been the content and the "what" element of policy and there have always been numerous ways (or "hows") to achieve this goal. Transfers and EU budget-based approaches, which are sometimes misunderstood as *the* Cohesion Policy are therefore only a part of Cohesion Policy. As a matter of fact, every piece of legislation should be contributing to cohesion (or at least "do-no-significant-harm") as one of the founding principles of the EU (see quote from the Treaty of Rome above). The CoR for instance, follows closely this principle by conducting Territorial Impact Assessments for a wide range of Regulations and Directives – thus checking (among others) the effects of these pieces of legislation on territorial cohesion.[13] This broad understanding of Cohesion Policy has to be kept in mind, when – in the following – we will mainly concentrate on the transfer side of Cohesion Policy (i.e. the EU Funds explicitly supporting territorial cohesion). In other words – we are perfectly aware of the fact that literally all policies in the EU may contribute to (or even harm) cohesion. It is this fact that represents also the difficulty in "proving" success or failure of Cohesion Policy in the EU. Unlike the effects of the Single Market, which are primarily to be captured in economic terms, Cohesion Policy embraces apart from the economic effects also social and governance outcomes (see a more detailed description in Section 4 below), which leads to difficulties in capturing them fully.

This heterogeneity leads to the next difficulty in dealing with Cohesion Policy, which is the question: Cohesion for whom and on which territorial scale? The Treaty of Rome already had a sub-national level in mind, when proclaiming the policy goal of cohesion. The territorial granulation plays an important role when operationalising the goal of cohesion through Cohesion Policy: when reminding ourselves that originally the aim of Cohesion Policy was to *correct the principal regional imbalances within the Community resulting in particular from agricultural preponderance, industrial change and structural underemployment* (ERDF Regulation 1975) and to offer all people within the EU the same opportunities with respect to their economic wellbeing and quality of life, then the question remains on which territorial level this matters. If we take the EU (and its economic actors) as global players competing on global markets and therefore having to follow the rules of a market economy, then cohesion will play a lesser role as the logic of competitive advantages and cost-benefit ratios will lead to concentration phenomena in order to arrive at economies of scope (in most of the

[13] See https://cor.europa.eu/en/our-work/Pages/Territorial-Impact-Assessment.aspx

industrial productions at least – see automotive, chemical or IT industries). For this perspective the "pure" application of the Single Market (providing the necessary market size as critical mass), will be sufficient. However, if economic diversification and regional markets are the focus and economic activities are to be territorially equally distributed and thus allow for opportunities for people everywhere in the EU, the territorial granulation on which these activities and the work force are perceived and targeted matter greatly. The phenomena of "pockets of poverty" or "trapped regions" (see below) can only be captured and therefore addressed on regional and local level (NUTS 3 down to LAU). The distribution of Cohesion Policy transfers (not of any other Cohesion Policy instruments) is still very much bound to higher territorial levels (NUTS 2 and above) due to the administrative logic of implementing the funds. Only two policy delivery mechanisms have been trying to break down the granulation – the Just Transition Fund (JTF) and community-led local development (CLLD) / LEADER. This dilemma of territorial granulation poses another problem in fully assessing success/ failure or contribution of Cohesion Policy.

**Cohesion Policy Funds**

- *European Social Fund (ESF)* was established with the European Economic Community in 1957. Today, as ESF+, it encompasses initiatives facilitating finding employment, supporting disadvantaged groups, improving education and making public services more efficient.

- *European Regional Development Fund (ERDF)* was created in 1975. The fund is a cornerstone of Cohesion Policy. Today, it aims to strengthen economic and social cohesion in the EU by investing in projects for a smarter, greener, more connected and more social Europe, closer to its citizens.

- *Cohesion Fund (CF)* was introduced in 1993. Still today, the fund remains targeted at member states with a gross national income per capita below 90% of the average to help them finance large-scale infrastructure projects, exclusively for transport and the environment under the Greener Europe and Connected Europe policy objectives.

- *Just Transition Fund (JTF)* is a new funding instrument (introduced in 2023). It aims to support regions and sectors most affected by the transition to a low-carbon economy, to ensure the transition is socially fair and economically sustainable. To address the most affected regions, the NUTS3 targeting (sub-regions) is being implemented for the first time. The JTF is novel as it targets only carefully selected territories and focuses on specific activities. The selection of regions was accompanied by the elaboration of a region-specific territorial just transition plans which designed to stimulate economic development and at the same time guarantee that no one is left behind.

These diverse perspectives of Cohesion Policy will have to be borne in mind when following the coming sections of the report. Due to the scope of the assignment, we have concentrated on transfer-based components of Cohesion Policy, and we have followed the assumption of regionally based territorial cohesion (NUTS 3 and below) well knowing that this will lead to certain limitations of the policy conclusions.

During the 1994-1999 period, the Cohesion Fund was introduced for the poorest countries in the union. With the accession of Sweden, Finland and Austria in 1995, sparsely populated regions could also receive Cohesion Policy support. This meant broader thematic priorities and more diverse spatial coverage. Following this development, in 2000-2006, monitoring and evaluation of Cohesion Policy became stricter, and the Lisbon Strategy shifted its objectives towards the EU priorities of growth, innovation and jobs (Bachtler & Mendez, 2020). In 2000-2006, the Cohesion Policy budget remained stable to meet the fiscal consolidation in the run-up to the European Monetary Union and the upcoming enlargement (Bachtler, Mendez, & Wishlade, 2013). Cohesion Policy adapted to the changing dynamics of member states. For example, the Eastern Enlargement in 2004 widened the geographical scope of Cohesion Policy considerably. This brought in less developed regions with lower incomes and less infrastructure, requiring a reallocation of funding and resources to address their needs.

The 2007-2013 programming period saw an increasing focus on the effectiveness of Cohesion Policy and its added value, putting an emphasis on measuring results (EP Policy Department D for Budgetary Affairs, Directorate General for Internal policies of the Union, 2019). Moreover, during this period all regions became eligible for Cohesion Policy support, bringing funding closer to the strategic objectives of the EU (Bachtler & Mendez, 2020).

With its signature in 2007 and entry into force in 2009, the Lisbon Treaty reinforced the Cohesion Policy framework by recognising economic, social and for the first time, *territorial* cohesion as fundamental objectives of the EU (see specifically Article 3 TEU (European Union, 2012). It also underlined cross-border cooperation and integration of policies to achieve cohesion goals (Bachtler & Mendez, 2020).

The Lisbon Strategy, and the Barca Report's place-based regional policy approach (Barca, 2009) highlighted the importance of economic support of sub-national levels (i.e. regions in the sense of NUTS 2 to NUTS 3 granulation). Regional (i.e. territorial) evidence should be guiding the support based on the specific needs with respect to innovation and research – thus tailoring support to the local/ regional circumstances. It was established as counter-argument to the World Bank Report (World Bank, 2009) on economic geographies advocating a more “space-blind” support mechanism of territorial policies. The Barca Report underlined that Cohesion Policy should not only serve as a fund fostering local and regional development, but as a helping mechanism through which all EU regions can benefit from the Single Market (McCann & Ortega-Argilés, 2021).

The global financial crisis of 2008 exacerbated disparities and social inequalities across the EU. As the main mechanism to address disparities, Cohesion Policy played a critical role in responding to challenges resulting from the crisis and promoting growth. The emergence of new economic geography provided a compelling rationale for Cohesion Policy, given significant agglomeration effects from the establishment of the single market (European Foundation for the Improvement of Living and Working Conditions, 2023). Cohesion Policy aligned with the objectives of the Lisbon Strategy through strategic investments and reforms and played a vital role in implementing the strategy with targeted investments and measures to address socio-economic consequences of the crisis (European Foundation for the Improvement of Living and Working Conditions, 2023).

The 2014-2020 programming period underlined a results-oriented approach within Cohesion Policy, moving away from a focus on absorption of funding (EP Policy Department D for Budgetary Affairs. directorate General for Internal policies of the Union, 2019). Key thematic objectives, such as research and innovation, SME competitiveness and climate change adaptation, took centre stage. Thematic concentration aimed to ensure that investments were targeted toward areas of strategic importance. Additionally, territorial cooperation and integrated development approaches gained prominence (Bachtler & Mendez, 2020).

The 2021-2027 period has brought further changes to Cohesion Policy. It has developed in a time marked by growing spatial disintegration and regional disparities (Sielker, Rauhut, & Humer, 2021a). Synergies with other EU funds and policies have gained increasing attention and the policy objectives have become more thematically concentrated (Bachtler, 2022).

The understanding of what cohesion entails has widened over the years, along with its ‘sense of purpose’, linked to ‘cohesion as an overall value’ and the ‘geography of discontent’ (European Committee of the Regions, Spatial Foresight, t33, & ÖIR, 2021). Also, the general perception and importance of Cohesion Policy has changed over time, as reflected in its share of the EU budget (European Commission, 2023b) that has fluctuated over the years.

Significant scientific debates surround the design of Cohesion Policy and whether it achieves its intended effect of reduced regional disparities. There is an extensive body of literature examining the effect of Cohesion Policy, but the conclusions are limited (Berkowitz, Monfort, & Pieńkowski, 2020). This lack of consensus suggests that a multitude of factors influence the outcomes of Cohesion Policy; the heterogeneity of regional disparities, varying economic conditions and the diversity of policy implementation across different areas. The contextual aspect is important to determining the success of Cohesion Policy. The policy's effectiveness can be greatly influenced by unique challenges and opportunities in different regions. A 'one-size-fits-all' approach may not yield desired outcomes uniformly across all areas (Berkowitz et al., 2020). Quality of government is also increasingly said to determine the efficiency of Cohesion Policy (e.g. Rodríguez-Pose & Garcilazo, 2015).

The debate has expanded to encompass new dimensions and challenges, and the role of Cohesion Policy as a support instrument for other overarching EU strategic priorities (Bachtler & Mendez, 2020). This concerns the role of Cohesion Policy in delivering on key EU priorities, linked to the European Semester, and in addressing issues such as mending the effects following the financial crisis of 2008-09, the impacts of the COVID-19 pandemic and the Russian invasion of Ukraine with the energy crisis. To cope with these challenges, political priorities have shifted to bringing Europe closer to its citizens. The COVID-19 pandemic presented a twin challenge that affected both health policy and economic resilience and the current crisis brought on by the war between Russia and Ukraine put further strains on all EU policies, including Cohesion Policy (Bachtler, 2022).

In this sense, Cohesion Policy has become more responsive and multipurpose. As it has adjusted over the last 30 years, it has increasingly evolved into a delivery mechanism for larger EU agendas. In recent times, Bachtler (2022) has argued there is a 'risk of diverting policy attention and funding from the core purpose of the policy' when Cohesion Policy is expected to respond to short term crises, rather than continuing to reduce regional disparities in the EU.

The value added of cohesion as an EU-level policy is increasingly debated, as well as its alignment with the objectives of the Single Market (Crescenzi & Giua, 2020). Can Cohesion Policy effectively contribute to EU strategic priorities while ensuring that regional and social disparities are addressed, and ensure economic, social, and territorial cohesion?

## 2.4 Conclusions

In its early years, the European project placed significant emphasis on establishing a Single Market as the cornerstone of economic integration. The Single European Act marked a significant turning point in this direction. It set the stage for the creation of an integrated economic space within the European Union, emphasising the need for harmonisation and the removal of barriers to facilitate the free movement of goods, services, capital and people across member states. A critical aspect emerged during this period – intertwining Single Market objectives with those of Cohesion Policy. This link was highlighted by Jacques Delors, who stressed that Cohesion Policy was instrumental in ensuring that all citizens and regions could reap the benefits of the Single Market expansion.

1988 and 1993 marked a turning point in allocation of the EU budget. Significant resources were directed towards Cohesion Policy funding, recognising its importance to underpinning completion of the Single Market. The Cohesion Fund aimed to support less developed countries to enable them to build missing infrastructure, to enhance their connectivity to the rest of the Single Market which in turn would support their economic growth as such, Cohesion Policy became the redistributing part of reaching the territorial cohesion goal in a way to ensure balanced development and cohesion across diverse EU territories.

The years following formal establishment of the Single Market saw a concerted effort to deepen its integration and broaden its scope. This era witnessed initiatives to liberalise crucial sectors including telecommunications, energy and transport. The overarching objective was to enhance competition, increase consumer choice and foster innovation within the EU.

Cohesion Policy responded to the changing needs of a growing and increasingly diverse EU landscape. It saw a broadening of the criteria for regions to be eligible for support, diversifying spatial coverage of the policy (the widening of the "Objectives" classifying the eligible regions from three to five). The priorities of Cohesion Policy also shifted in accordance with developments of the Single Market, aligning with the ambition of growth, innovation and job creation, adapting to the evolving EU agenda.

**Crisis and the debate on Cohesion Policy and economic governance.** The new millennium brought challenges that tested the resilience of both the Single Market and Cohesion Policy. The global financial crisis of 2008 cast a spotlight on mechanisms to address disparities exacerbated by economic downturns. Cohesion Policy functioned as a key instrument to counteract agglomeration effects arising from the establishment of the Single Market (Jouen, 2014). This underpinned

Cohesion Policy´s strategic investments and reforms to mitigate socio-economic consequences of the crisis.

Amid this crisis of 2008/09, Cohesion Policy played a vital role in implementing growth strategies and responding to challenges faced by EU member states. The policy´s adaptability and capacity to align with evolving strategic objectives showcased its importance in driving regional development and cohesion within the EU. By this time, Cohesion Policy was seen as a versatile tool to foster economic resilience, social cohesion and territorial balance.

**The twin transition and new challenges for Cohesion Policy.** New political challenges and opportunities emerged nowadays. Initiatives like the European Green Deal and the Digital Single Market Strategy are reshaping the Single Market 's approach signalling a departure from its earlier focus on liberalisation to a stronger focus on industrial policy and strategic autonomy. This shift was echoed in Cohesion Policy, which navigated an environment marked by growing spatial disintegration and regional disparities. The policy´s thematic concentration and synergies with other EU policies emerged as prominent features.

Cohesion Policy´s role in addressing complex issues such as Brexit, the COVID-19 pandemic and geopolitical crises once again underline its adaptability and responsiveness to unforeseen challenges. However, concerns arose regarding its evolving purpose and the potential for its attention to be diverted from its core mission of reducing regional disparities and allowing all people and places to take part.

As the debate around Cohesion Policy expanded, questions arose about its alignment with the Single Market objectives and whether Cohesion Policy could contribute to large EU strategic priorities and ensure that regional and social disparities are being addressed. This debate underscores the evolving relationship between Cohesion Policy and the Single Market, prompting considerations about their shared objectives, cohesiveness and impact on the future of the European project.

Further discussions regard the consideration of regions in development traps, which has been observed as over the last years (Rodriguez-Pose, Dijkstra, & Poelman, 2023).

In principle, a regional development trap is defined by Diemer et al. as *the condition of 'regions that face significant structural challenges in retrieving past dynamism or improving prosperity for their residents'* (Diemer et al., 2022: 487). The classic example of a region in a development trap is one that initially experienced a rapid growth spurt allowing it to attain middle-income levels

(Kharas and Kohli, 2011). In a development trapped region, economic growth is lower than that of the EU, of the country the region it is located in, and/or of the region itself in a previous period. Growth is measured for three indicators: GDP per capita, employment, and productivity. In the EU, the number of regions that have fallen into a development trap of this sort increased after the financial crisis. This trap has affected less developed, more developed, and 'transition' regions

Development traps may be found in different regions. There can be development trapped regions with a very low GDP per head, which receive substantial Cohesion Policy support but have struggled to sustain growth. There can also be development trapped regions with slightly below average GDP per head, but where the economic dynamism has since stagnated. Lastly, there can be development-trapped regions with above average GDP per head, where although being prosperous, they have experienced periods of below average growth in GDP, productivity and employment. Taking these discussions further could imply re-thinking future Cohesion Policy eligible areas, to better cover the trapped or static regions, as well as more dynamic regions which have escaped the development trap.

As outlined in this section, the future of Cohesion Policy and of the Single Market are under discussion and interesting inputs are expected in the near future. A group of high-level specialists has been established in January 2023.[14] The group of high-level specialists will publish its final report in early 2024, a few weeks ahead of the publication of the 9th Cohesion Report. These two publications will play a key role in the political debate on the future of Cohesion Policy post 2027, while an independent report on the future of the Single Market is expected in 2024 by Enrico Letta, as requested by the Council of Ministers.

[14] See also https://ec.europa.eu/regional_policy/policy/how/future-cohesion-policy_en

# 3 How Cohesion Policy improves access to the Single Market

Drawing on the evolution and development of the Single Market and Cohesion Policy, as described in Chapter 2, Chapter 3 looks at how Cohesion Policy improves access to the Single Market, by paying particular attention to improving access to the market, goods and services, strengthening the local economy and improving location factors and enhancing good governance for effective territorial development.

As mentioned, Cohesion Policy interventions have played a significant role in improving the access of local and regional actors to the Single Market in the EU. Still, the role and perception of Cohesion Policy has changed over time. Starting as a policy for ensuring that all citizens and regions could reap the benefits of the Single Market, it became a financial redistribution instrument and from the mid-2000s a development policy and a multi-purpose tool supporting EU structural priorities and increasingly a crisis-response mechanism.

Here, more specific rationales by types of Cohesion Policy intervention (or rather specific objectives)[15] are developed and assessed for the degree they contribute to reducing market barriers and enhancing the efficiency of the Single European Market.:

- **Improving access to the market, goods and services**: initiatives aimed at enhancing market accessibility (both physical and digital) to facilitate the movement of goods, services, people and capital within the Single Market. This also includes interventions to empower consumers and increase their access to goods and services within the Single Market. By bolstering both supply and demand sides, these measures stimulate market efficiency. Investments include infrastructure development and support for social inclusion.
- **Strengthening the local economy and improving location factors:** interventions that strengthen the supplier side of local production. This involves measures to support local businesses and industries, fostering economic growth and competitiveness. Investments include those in innovation, SME support, and human capital development. These investments can influence outward investment and the inflow of foreign

[15] For more information, see: https://cohesiondata.ec.europa.eu/stories/s/2021-2027-categorisation-information-system/hhu3-atyz/

direct investment, ultimately impacting the efficiency and competitiveness of the Single Market.

- **Enhancing good governance for effective territorial development**: this impacts the capacity to make good use of investments and includes administrative capacity building, territorial cooperation and territorial tools to enhance governance and territorial development. Investments and efforts to improve governance will ultimately further improve regional and member state capacity to contribute to the Single Market.

Importantly, the enabling conditions and earlier ex ante conditionalities introduced in the Common Provisions Regulation for the 2014-2020 programming period (Huguenot-Noël, 2023), are key in ensuring that funding through Cohesion Policy is used efficiently and that the receivers focus their investments in areas that will contribute to the achievement of the EU goals (OJ L 231, 2021). The enabling conditions are designed to enhance the quality of programming and project implementation by ensuring that certain conditions are met upfront.

Cohesion Policy interventions set out to reduce regional disparities, enhance competitiveness and promote economic integration. These play an important role in improving access to the Single Market in a number of ways. Throughout the analysis, we also underline how these Cohesion Policy interventions help to actually achieve on the ground the basics 4 freedoms of the single market, the free movement of goods, services, people and capital. They also participate to the realisation of digital single market which is a more recent development.

## 3.1 Improving access to the market, goods and services

Investments to improve access to the market as well as goods and services are two major types of Cohesion Policy investment. Cohesion Policy actively bolsters physical and digital infrastructure, increasing the connectivity of regions to broader markets while fostering collaboration within and between regions. This improves access to the Single Market goods and services.

### 3.1.1 Infrastructure development

Cohesion Policy supports the development of transport, communication and other physical infrastructure, which is crucial to improving access to the Single Market. Investment in transportation networks such as roads, railways and ports facilitates the movement of goods and services, connecting cities and regions to wider markets. The strategic development of such infrastructure can unlock economic growth and collaboration.

### Transport

One of the most tangible benefits of transportation network development is its profound impact on the movement of goods and services. Roads, highways and railways are arteries that enable the efficient transport of goods and people within and between member states. During the 2014-2020 programming period, massive interventions improved interconnectedness in the EU (Table 3.1). The Single Market Act II (European Commission, 2012) clearly underlined the importance of improving transport. Cohesion Policy funding through the European Regional Development Fund (ERDF) and the Cohesion Fund led to 2 958 km of new road, of which 2 055 km was TEN-T (European Commission, 2023a). For rail, 102 km TEN-T was built and an additional 1 838 km reconstructed (European Commission, 2023a).

Under the horizontal policy objective of ‘a more connected Europe by enhancing mobility’ (OJ L 231, 2021), the enabling condition for transportation development in the 2021-2027 programming period includes several criteria. Amongst these are alignment with the TEN-T core network corridors while ensuring enhanced connectivity to them, the promotion of multimodality and the inclusion of measures that promote alternative fuels (OJ L 231, 2021).

The development of transportation networks also fosters societal transformation. Cities and regions previously isolated from significant markets become interconnected, with an upsurge in economic activity. SMEs can more easily access larger markets, allowing them to compete and thrive on a broader scale. The impact is not limited to commerce. Enhanced transportation infrastructure leads to improved accessibility for citizens, resulting in better healthcare, education, employment and cultural opportunities. Territories that were historically marginalised due to inadequate infrastructure benefit significantly, as their access to markets and economic opportunities expands.

**Table 3.1 Network Infrastructure in Transport and Energy, EUR**

| Cohesion Policy Funding | Cumulative investment (EU & national) (2014-2020) | Total |
|---|---|---|
| ESF | - | 67 099 611 337 |
| ERDF | 29 099 623 415 | |
| CF | 37 999 987 922 | |

Source : (European Commission, 2023a)

For example, Robert, Stumm, de Vet, Reincke, Hollanders, & Figueiredo, 2001 (2001) found that the Iberian Peninsula profited considerably from investment in road infrastructure. With the Single Market, infrastructure crossing the Pyrenees became increasingly important for exports and imports. Road traffic experienced remarkable growth, underlining both the positive effect of the Single Market on economic integration, and the importance of infrastructure to facilitate trade. However, referring to the territorial impacts of TEN-T, Robert et al. (2001) highlight the dilemma inherent in the Single Market and Cohesion Policy conjunction between the desire to (a) give enterprises ideal conditions in a single market to thrive and (b) maintain economic and social cohesion. They come to the conclusion that this can only be achieved through an early and close coordination of different EU policies.

The ex-post evaluation of the ERDF and Cohesion Fund for the 2007-2013 period strongly emphasises the contribution of Cohesion Policy to rail and road segments within member states and to the TEN-T (European Commission, AECOM, & KPMG, 2016; Finnegan, Redfern, & Signorile, 2016). An example is the Trakia Motorway in Bulgaria, connecting Sofia and Burgas. The motorway was a high national priority, as well as contributing to the TEN-T Orient/East-Med Corridor. As such, completion of the last segment of the motorway was of both national and EU interest (Finnegan et al., 2016).

Investment in transport corridors to connect isolated regions to major economic centres is pivotal. These corridors not only facilitate the movement of goods and people but also serve as pipelines to exchange ideas and to collaborate. A region with improved connectivity gains a competitive edge as an attractive location for businesses looking to establish a foothold in the Single Market. This connectivity fosters exchanges of goods, services and expertise.

Encouraging strategic reconfigurations can open up new opportunities for enterprises seeking markets across borders. By expanding their reach beyond local markets, businesses can tap into a wider customer base and explore untapped potential in neighbouring regions and countries. In short, the Single Market´s ability to fulfil its social, cultural, political or economic potential, relies on mobility (European Commission, 2012).

By lifting physical distance barriers through cross-border infrastructure and and cross-border cooperation, Cohesion Policy can promote trade and investment. This integration can foster economic growth, encourage innovation and lead to the efficient allocation of resources within regions. Ferrara et al. (2017) finds that Cohesion Policy transport infrastructure investments have increased accessibility (Ferrara et al., 2017). As such, Cohesion Policy interventions strengthen local economies by increasing access to the Single Market.

**Communication**

A parallel development is information and communication technology infrastructure. These investments feed into a multitude of Cohesion Policy objectives. Advances in infrastructure facilitating both physical, as seen above, and digital communication are important to maintaining Europe´s competitiveness in today´s progressively digital global economy. To facilitate this, EUR 20 billion from the European Regional Development Fund was earmarked in the 2014-2020 programming period[16], with investments totalling more than EUR 15 billion (Table 3.2) (European Commission, 2023a).

The thematic enabling conditions for communication technologies, presented in line with the overarching policy objective of a 'more competitive and smarter Europe' (OJ L 231, 2021), focus on enhancing digital connectivity. To receive funding through ERDF in the current funding period, a region or member state must have a national or regional broadband plan that, in short, has a clear strategy to make communication infrastructure more affordable, faster and sustainable (OJ L 231, 2021).

**Table 3.2 Information & Communication Technology, EUR**

| Cohesion Policy Fund | Cumulative investments (EU & national) (2014-2020) | Total |
|---|---|---|
| ESF | - | 15 779 319 034 |
| ERDF | 15 779 319 034 | |
| CF | - | |

Source : (European Commission, 2023a)

Examples of investments improving information and communication technology infrastructure include high-speed broadband and improved electronic services. In Martinique, a project was initiated to ensure island-wide high-speed broadband to counteract a growing digital divide, with ERDF contributions of EUR 34.5 million (European Commission, 2019).

Improvements in information and communication technology enhance productivity and transform challenges like geographical isolation into economic strengths. Advances such as the one in Martinique can facilitate innovative electronic services, including e-learning and e-health, as well as enable telecommuting and video conferencing, connecting the region globally. As such, improved digital technology facilitates international trade, brings peripheral

[16] For more information, see: https://ec.europa.eu/regional_policy/policy/themes/ict_en

regions closer to markets and aligns with the policy goals and provisions set out in Regulation 2021/1060 (OJ L 231, 2021).

### 3.1.2 Social inclusion

Cohesion Policy actively promotes social integration and equal opportunities. By investing in social infrastructure and poverty reduction programmes, Cohesion Policy fosters a more inclusive society, ensuring marginalised groups can access essential services and opportunities. This objective is also important in relation to the Single Market (European Commission, 2012). During the 2014-2020 programming period (Table 3.3), ESF was the main funding mechanism for initiatives promoting social inclusion. ERDF complemented these efforts by investing in health and social infrastructure, enabling physical and social regeneration in disadvantaged communities, aligned with CLLD strategies.[17] In the regulation for the 2021-2027 programming period, enabling conditions for social inclusion are set under the policy priority of a ‘more social and inclusive Europe’. Fulfilment criteria include measures for addressing segregation and ensuring equal access to services (OJ L 231, 2021).

**Table 3.3 Social Inclusion, EUR**

| Cohesion Policy Fund | Cumulative investments (EU & national) (2014-2020) | Total |
|---|---|---|
| ESF | 35 015 507 074 | 52 329 944 382 |
| ERDF | 17 314 437 308 | |
| CF | - | |

Source : (European Commission, 2023a)

An example of an ESF supported project was in central Denmark. Individuals who have experienced prolonged unemployment may find re-entering the workforce a big challenge. To help with this, the initiative focused on innovative approaches to generate employment opportunities for those at the margins of the job market. With an EUR 3 691 192 contribution from ESF, 800 participants were expected to take part in the project (European Commission, 2020c).

Among many investments supported by ERDF, a project in Poland was launched to improve employment opportunities for people with severe and moderate disabilities. 26 people participated in what has become a permanent part of the regional economy (European Commission, 2022a). The vocational rehabilitation unit offers a stable employment environment, where participants gain vocational

[17] For more information, see: https://ec.europa.eu/regional_policy/policy/themes/social-inclusion_en

and social skills while acclimatising to a workplace setting. The skills also facilitate smoother transitions into the broader job market (European Commission, 2022a), extending the project's scope.

Inclusive societies can better harness the talents of all individuals (Oxoby, 2009), with a diverse and innovative workforce that drives economic growth and strengthens Single Market competitiveness. Investments to foster social inclusion strengthen the demand side of the Single Market by ensuring that consumers, at all levels of society, can better participate in the Single Market. These efforts should lead to a more cohesive and equitable social fabric within regions, which contributes to the harmonious functioning of the Single Market. Furthermore, social inclusion can also contribute to strengthening the local economy and improve location factors by increasing the attractiveness of a region by, for example, enlarging the employee pool.

## 3.2 Strengthening the local economy and improving location factors

Cohesion Policy investments impact both outward investment decisions and local economic strengthening. Cohesion Policy interventions supporting research and innovation, as well as SMEs, contribute to an environment conducive to growth and competitiveness within the Single Market. By channelling interventions into research and development, technology transfer and start-up support, Cohesion Policy encourages innovation ecosystems that attract local and foreign investment, improving the efficiency of the Single Market. Additionally, Cohesion Policy emphasis on strengthening local economies through human capital development, such as education or skills development, ensures that regions are well prepared to participate in the broader market.

### 3.2.1 Innovation and entrepreneurship

Cohesion Policy supports innovation and entrepreneurship in cities and regions, enabling them to tap into the opportunities of the Single Market. Investments in research and development, technology transfer and support for start-ups foster innovation ecosystems and increase the competitiveness of local businesses. Research and development is valuable to economic growth and enhancing the business environment to foster and safeguard creativity and innovation (European Commission, 2012). Initiatives include new innovation hubs and technology parks in regions, which have facilitated the integration of local companies into the Single Market and attracted foreign direct investment. Investments in research and innovation seem to have a positive impact, increasing innovative capacity in

Cohesion Policy receiving regions compared to other regions (Ferrara et al., 2017).

Since Smart Specialisation was introduced, ERDF investment in innovation has supported over 185 smart specialisation strategies.[18] In the 2014-2020 programming period, investments in research and innovation through Cohesion Policy add up to more than EUR 61 billion (Table 3.4). This is underlined in the 2021-2027 programming period, where EUR 56.6 billion are designated for research and innovation.[19]

Smart Specialisation is also a specific objective in the 2021-2027 thematic enabling conditions and underlines that smart specialisation strategies need to be accompanied by measures to ensure its effectiveness. These include, but are not limited to, maintaining an up-to-date analysis of applicable challenges for innovation and supporting industrial transitions (OJ L 231, 2021).

**Table 3.4 Research & Innovation, EUR**

<table>
<tr><th>Cohesion Policy Fund</th><th>Cumulative investments (EU & national)<br>(2014-2020) EUR</th><th>Total</th></tr>
<tr><td>ESF</td><td>-</td><td rowspan="3">61 571 864 330</td></tr>
<tr><td>ERDF</td><td>61 571 864 330</td></tr>
<tr><td>CF</td><td>-</td></tr>
</table>

Source : (European Commission, 2023a)

Among the many investments supported by ERDF is the Metal 3D Innovations project. This has established a regional knowledge cluster in South Karelia, Finland, advancing the use of 3D printing for metal industrial components. The hub involves diverse actors and experts within or relating to the field. It has adapted to local demands and sought to share knowledge within the cluster as well as outside it (European Commission, 2020b). Sharing project findings has attracted interest and participation in trade fairs and conferences. Online training has ensured widespread awareness. Collaboration with other EU-funded projects, engagement with universities and the creation of a Finnish 3D printing expert database underscores the project’s broader impact (European Commission, 2020b).

Living Labs´ in Apulia, Italy, aimed to accelerate the time-to-market of innovative products and solutions while minimising the ‘Valley of Death’ risk, thereby

[18] For more information, see: https://ec.europa.eu/regional_policy/policy/themes/research-innovation_en

[19] For more information, see: https://ec.europa.eu/regional_policy/policy/themes/research-innovation_en

stimulating innovation. The process was supported by strong central coordination with the implementation of a three-step process. Starting with identifying specific social needs to be addressed, local ICT SMEs were invited to tackle the challenges, resulting in 80 projects (CSIL, European Commission, CSES, & ZEW, 2016).

Innovation is an important factor influencing regional disparities. Inequalities within regions are frequently being realigned with concentrated innovation (Boschma, 2023). Technology clusters create an environment conducive to cross-pollination of ideas and collaboration among researchers, entrepreneurs and established businesses. Through Cohesion Policy support, these clusters emerge as epicentres of innovation, attracting both local and foreign investment. The resultant influx of innovation drives economic growth, promotes competitiveness and ensures that regions are well-equipped to contribute to the broader European economic landscape.

### 3.2.2 Support for SMEs

Cohesion Policy places a strong emphasis on supporting SMEs, recognising their importance as engines of growth and innovation within the Single Market, relating strongly to investments in research and innovation. Through ERDF, over EUR 59 billion was allocated to support and enhance SME competitiveness (Table 3.5).

**Table 3.5 SME Competitiveness, EUR**

| **Cohesion Policy Fund** | **Cumulative investments (EU & national) (2014-2020)** | **Total** |
|---|---|---|
| ESF | - | 59 128 337 012 |
| ERDF | 59 128 337 012 | |
| CF | - | |

Source : (European Commission, 2023a)

Among others, a study in Apulia, Italy, documented positive impacts of direct support to SMEs for research and development (R&D) projects. The findings revealed a notable increase in R&D expenditure and some improvement in the performance of SME beneficiaries (European Commission, CSIL., CSES., & ZEW., 2016). In a similar vein, a Czech study concluded that 87% of projects aiming to increase innovation in SMEs would not have taken place without grants (CSIL et al., 2016).

Another contribution is through interventions that foster innovation by encouraging SMEs to realign their business models. In Lithuania for example, increasing expenditure towards innovation through a relatively small allocation of funds provoked behavioural change by raising awareness and promoting innovation among businesses (CSIL et al., 2016). In this sense, there are spill over effects in attitude and culture amongst businesses from interventions to promote innovation and R&D.

Financial instruments, business development programmes and access to loans and venture capital have helped SMEs to overcome barriers and expand their operations across borders. This support has enabled SMEs in various regions to take advantage of opportunities presented by the Single Market and compete with larger enterprises, in line with Single Market Strategy goals (European Commission, 2015b).

### 3.2.3 Human capital development

Cohesion Policy supports initiatives to enhance human capital through education, training and skills development. By improving the knowledge and skills of the workforce, regions have been better equipped to participate in the Single Market. For instance, investments (Table 3.6) in vocational training programmes and higher education institutions have helped cities and regions develop a skilled labour force that can meet the demands of the Single Market and attract investment in knowledge-intensive sectors. ESF investments during the 2014-2020 programming period supported more than 20 million people all over the EU (European Commission, 2023a).

Funding relating to human capital development in the form of education and training are subject to regulations under the enabling conditionalities. This entails, for example, the need to establish evidence-based systems to predict skill needs, mechanisms to track graduates and provide effective guidance, ensuring equitable access to high-quality education at all levels and creating pathways for individuals with limited skills or disadvantaged backgrounds (OJ L 231, 2021).

**Table 3.6 Education & Vocational Training, EUR**

| Cohesion Policy Fund | Cumulative investments (EU & national) (2014-2020) | Total |
|---|---|---|
| ESF | 36 692 842 252 | 45 595 257 013 |
| ERDF | 8 902 414 761 | |
| CF | - | |

Source : (European Commission, 2023a)

For example, the Third Level Access project in Ireland received EUR 11.2 million in ESF funding to enable students with disadvantaged backgrounds or disabilities to pursue higher education (European Commission, 2020a). The project supported

185 296 participants and involved direct financial assistance, as well as tailored amenities for students with disabilities (European Commission, 2020a).

Another case is the Territorial Enhancement Operational Programme in Portugal which addressed the transformation of the country´s secondary school system. By combining funding sources, including ERDF, the state facilitated widespread intervention (Metis, 2016). It enabled diverse investments including facility, security and accessibility improvements, essential school equipment such as laboratories and technological infrastructure. The project´s scope extended to fostering a connection with the surrounding community as well as promoting equal opportunities and social inclusion (Metis, 2016).

The economic potential of a region is impacted by the level of education. A more educated population, coupled with a dynamic and knowledge-intensive economy will benefit growth (Rodríguez-Pose & Vilalta-Bufí, 2005). Moreover, a less educated workforce adds to a risk of discontent and anti-EU sentiment (Dijkstra, Poelman, & Rodríguez-Pose, 2020). The value of investments to improve human capital is highly important.

These investments in human capital resonate with the principles of social inclusion. When regions prioritise education and training, they open up opportunities for a range of individuals, contributing to social mobility and reducing disparities. These priorities ensure sustainable and quality employment (Table 3.7). As a result, a socially inclusive society is better positioned to harness advantages of the Single Market, as a more skilled and diverse workforce becomes a key asset in addressing intricate market demands.

**Table 3.7 Sustainable & Quality Employment, EUR**

| Cohesion Policy Fund | Cumulative investments (EU & national) (2014-2020) | Total |
|---|---|---|
| ESF | 39 859 183 290 | 44 053 554 364 |
| ERDF | 4 194 371 047 | |
| CF | - | |

Source : (European Commission, 2023a)

## 3.3 Enhancing good governance for effective territorial development

The efficiency of the Single Market hinges on robust governance mechanisms. Effective governance ensures the smooth facilitation of transactions and interactions within the Single Market, enforcing fair competition and rule adherence, building consumer trust, supporting adaptable policies and facilitating harmonisation across diverse regions. Cohesion Policy contributes to nurturing good governance within the EU, by creating a fair environment where goods, services, labour and capital can flow seamlessly across borders.

Cohesion Policy interventions encompass measures that enhance existing good governance for effective territorial development in the context of the Single Market. Investments in institutional capacity and enhanced public administration efficiency mean Cohesion Policy strengthens the structural underpinnings of the Single Market and lay the groundwork for a regulatory environment that fosters fair competition. Furthermore, territorial cooperation and territorial tools supported by Cohesion Policy, further enhance existing good governance.

### 3.3.1 Administrative Capacity Building

Investment in institutional capacity as well as enhanced public administration and services at all government levels are important intervention streams for Cohesion Policy to achieve its objectives. Interventions include legislative refinement, policy harmonisation, integrity and accountability for public administration expenditure. Support is directed towards increasing institutional capacities and enhancing the efficiency of public administrations and services with investments exceeding EUR 5 billion in 2014-2020 (Table 3.8). These initiatives align with the broader objectives of Cohesion Policy.

**Table 3.8 Efficient Public Administration, EUR**

| Cohesion Policy Fund | Cumulative investments (EU & national) (2014-2020) | Total |
|---|---|---|
| ESF | 4 182 630 663 | 5 752 409 348 |
| ERDF | 1 569 778 685 | |
| CF | - | |

Source : (European Commission, 2023a)

A case study in Poland found the local economy structure to be the main factor determining the impact of intervention under Cohesion Policy. More non-agricultural enterprises and fewer agricultural functions increased the effect of Cohesion Policy. Factors that lead to a higher absorption capacity (such as improvements in human capital) is important, but these are mostly characteristics of wealthy suburban areas (Mróz, Komorowski, Wolański, Stawicki, Kozłowska, & Stanny, 2023). This confirms the argument that quality of government is an important factor in the success of Cohesion Policy interventions (Rodríguez-Pose

& Garcilazo, 2015) and relates to the ability of Cohesion Policy to enhance institutional capacities.

The effectiveness of Cohesion Policy interventions depends on implementation (Berkowitz et al., 2020). Along these lines, Rodríguez-Pose & Garcilazo (2015) find that quality of government affects the capacity of a region to use Cohesion Policy funding beneficially, and the relevance of government quality increases as cohesion expenditure rises. Thus, improving the quality of government is suggested as a more viable option than increasing the Cohesion Policy budget (Rodríguez-Pose & Garcilazo, 2015). To enhance EU competitiveness and simultaneously address disparities in territorial development, enhancing government quality should be at the top of the policy agenda (Barbero, Christensen, Conte, Lecca, Rodríguez-Pose, & Salotti, 2023). It will not only yield economic growth, but also enhance the effectiveness of most public policies (Barbero et al., 2023).

### 3.3.2 Enhancing good governance through territorial cooperation

Cohesion Policy encourages cooperation across borders, particularly in border regions, to promote economic integration and facilitate access to the Single Market. Examples include the establishment of cross-border business networks, joint marketing initiatives and cooperation on infrastructure projects. These have helped to reduce legal and administrative barriers, promote trade and investment, strengthen innovation and business capacities, as well as improve the accessibility of cities and regions to the Single Market. During the 2014-2020 programming period, EUR 6.6 billion was invested in cross-border cooperation programmes, EUR 2.1 billion in transnational cooperation programmes and EUR 0.5 billion in interregional cooperation programmes through Interreg. These totalled 2.8% of the Cohesion Policy budget.[20] During the 2014-2020 programming period, 116 185 persons were supported by Interreg programmes bolstering youth employment, fostering cross-border educational opportunities, and promoting higher education and vocational training (European Commission, 2023a).

Territorial cooperation may also go far beyond the scope of Interreg. Other cooperation frameworks include the four macro-regional strategies, namely the European Union Strategy for the Baltic Sea Region (EUSBSR), the European Union Strategy for the Danube Region (EUSDR), the European Union Strategy for the Adriatic Ionian Region (EUSAIR) and the European Union Strategy for the Alpine Region (EUSALP), which cover large transnational areas. In addition, there are three sea basin strategies for the Atlantic, the Western Mediterranean

[20] For more information, see: https://ec.europa.eu/regional_policy/policy/cooperation/european-territorial/interreg-2014-2020_en

and the Black Sea, recognising the importance of cooperation for coastal areas. Lastly, the European Groupings of Territorial Cooperation (EGTCs) are cooperation frameworks where public authorities can set up a cooperation structure with full legal personality to implement projects or investments.

Furthermore, in a recent contribution to the debate on the future of Cohesion Policy, Storper (2023) argues that regional development not only improves the local population, but should aim to contribute to other regions across the EU. As such, the main goal of any territorial policy framework should be to enhance the collective contributions of all regions to the whole. Regions have different starting points, with different abilities to contribute. So, the emphasis lies in creating positive progress in each region individually, embracing their distinct traits (Storper, 2023). However, the aim is intra-regional convergence rather than expecting all regional per capita incomes to rise to the same level. While highly performing regions, those centred on large urban agglomerations, attract valuable human resources at the expense of less developed regions, they also produce innovation spill overs and tax revenues (Storper, 2023). This argument centres around the idea of regions working together, sharing resources and potentially cooperating to address common challenges and leverage each other´s strengths.

It is worth noting that the vast majority of cooperation in the EU remains within national boundaries, also for more developed regions (Boschma, 2023). Investing in increased cross-border cooperation is thus pivotal to ensuring both *continued* innovative capacity and to help less developed regions diversify. Less innovative regions tend to increase their capacity to diversify when connecting or collaborating with other regions (Boschma, 2023). In this sense, there should be a lot of untapped potential for lucrative collaboration across the EU.

The Single Market thrives when collaboration leads to harmonised standards, such as improved regulatory frameworks and innovative solutions to common challenges. Cohesion Policy, through its support for cross-border projects, strengthens the interconnectedness of the European economic landscape. As regions collaborate to address shared issues, they create a synergy that contributes to resilience and adaptability in the Single Market. For instance, shared R&D initiatives can lead to breakthrough innovations that benefit the entire market. Cross-border collaboration also has a transformative effect on regions as they learn from each other´s experiences, adopt best practices and collectively adapt to changes in market dynamics.

### 3.3.3 Enhancing good governance through territorial tools

Cohesion Policy includes territorial tools such as the Integrated Territorial Investments and Community Lead Local Development (CLLD). These strive to empower local communities and regions to shape their own development trajectories.

Around 10% of the Cohesion Policy budget, EUR 30 billion, was designated for territorial and urban strategies in the 2014-2020 programming period (Ferry, 2019). This includes Integrated Territorial Investments, a novelty in the 2014-2020 programming period, that promote an integrated approach across various levels. These investments support multi-thematic integrated strategies and can draw funding from multiple priority axes of one or more programmes and funds, to ensure the most appropriate policy mix (Pertoldi, Fioretti, Guzzo, Testori, de Bruijn, Ferry, Kah, Servillo, Windisch, & Joint Research Centre, 2022). This involves adopting a territorial outlook, potentially granting more authority to manage tasks at the local level. It also facilitates synergies between different funds and operational programmes, resulting in a more efficient Cohesion Policy (Ferry, 2019).

CLLD is another territorial tool under Cohesion Policy which aims at mobilising local potential. It is not only a territorial tool, but also a method to implement local strategies based on a bottom-up participatory and area-based approach (Pertoldi et al., 2022). The bottom-up approach to policy development encourages local communities to co-develop strategies for their area. During the 2014-2020 programming period, 11 member states adopted CLLD strategies (European Commission. Directorate General for Employment, Social Affairs and Inclusion. & ICF., 2022). Approximately EUR 17 billion of the ERDF was designated for integrated strategies to foster Sustainable Urban Development, spread over more than 950 individual strategies (Fioretti, Pertoldi, Busti, & Van Heerden, 2020).

By promoting CLLD initiatives, collaborative infrastructure projects, Sustainable Urban Strategies and joint marketing efforts, territorial tools enhance the accessibility and attractiveness of regions. Just as investments in human capital development bolster the workforce, these tools amplify the capacity of regions to align development strategies with their unique strengths and potentials. By fostering engagement, territorial tools not only enhance economic prospects but also contribute to the coherence and dynamism of the Single Market.

Overall, it is clear that Cohesion Policy has supported EU regions not only through its funding support, but also by enhancing governance and administrative capacity and learning, which have spread across national and regional administrations. In addition, Cohesion Policy has been crucial for enhancing the idea of belonging in the EU that it generates among its citizens. Particularly in view of emerging global challenges and changes that ask for new ideas, skills, capacities and capabilities, a multidisciplinary and multilevel Cohesion Policy is important to empower people and institutions to face these new challenges. Such policy learning has spill over effects across territories and policy sectors and establishes good practices for transparent, accountable and effective public policies and spending, contributing to institution building across the EU.

# 4 Single Market, Cohesion Policy and the EU budget

The impacts of Cohesion Policy spending on EU member states are substantial as well as diffuse. Identifying indirect spill over effects of Cohesion Policy is essential to better understand the extent to which all member states and regions benefit from Cohesion Policy interventions.

This chapter provides a comparative analysis of literature on the subject and hypotheses for spill over effects, derived from the literature and based on expert judgment.

## 4.1 The loose view of a net position

Financing for Cohesion Policy and the divide between net contributors (or payers) and net beneficiaries (or receivers) is a long-lasting debate. The main arguments are linked to the use of national resources to finance interventions in other member states and the geographic distribution of Cohesion Policy benefits. The EU budget currently is largely financed by member state contributions proportionate to their gross national income (GNI).[21] This is linked to Cohesion Policy aims of reducing disparities in development between EU member states and regions. Consequently, Cohesion Policy entails a transfer of resources from more to less developed member states and regions (Crucitti, Lazarou, Monfort, & Salotti, 2023). The EU budget is however not about 'giving and taking', but rather about pooling resources to create synergies and address common issues. The modus operandi of Cohesion Policy is by definition future-oriented, aiming to address joint challenges such as persistent income distribution inequalities, digital and green transition requirements, migration and climate change.

Any debate over how much each member state is getting out of the EU budget in comparison with how much they are putting in is complex. The scope and extent of advantages and benefits from Cohesion Policy and the Single Market cannot be fully grasped just by measuring direct monetary benefits.

Still, there are attempts to estimate these benefits, for example, in terms of gross domestic product per capita and employment growth. Findings on the positive association of Cohesion Policy spending and economic prosperity however differ across studies for several main reasons. First, Cohesion Policy includes a large

[21] A contribution introduced in 1988 to overcome the challenge of increasing expenses and reduced importance of traditional 'own resources', which has since grown to the largest single source of income for the European Union.

range of public programmes and sectoral policy interventions which generate different effects on economic growth. Second, although the principles of Cohesion Policy are the same everywhere, the territorial context matters including the baseline economic situation, governance structures and national legislation as these have an impact on the concrete economic effects of Cohesion Policy interventions/ investments. Third, Cohesion Policy is embedded in a larger framework of EU policies, and the participation in the single market is itself a key benefit, creating economic advantages however for some member states more than others (Bachtrögler, Fratesi, & Perucca, 2020).

## 4.2 Contribution to the EU budget, Cohesion Policy spending and Single Market gains

This sub-section examines the contribution to the EU budget, Cohesion Policy spending (European Commission, 2020d) and the economic effect of the Single Market per member state (Mion & Ponattu, 2019).

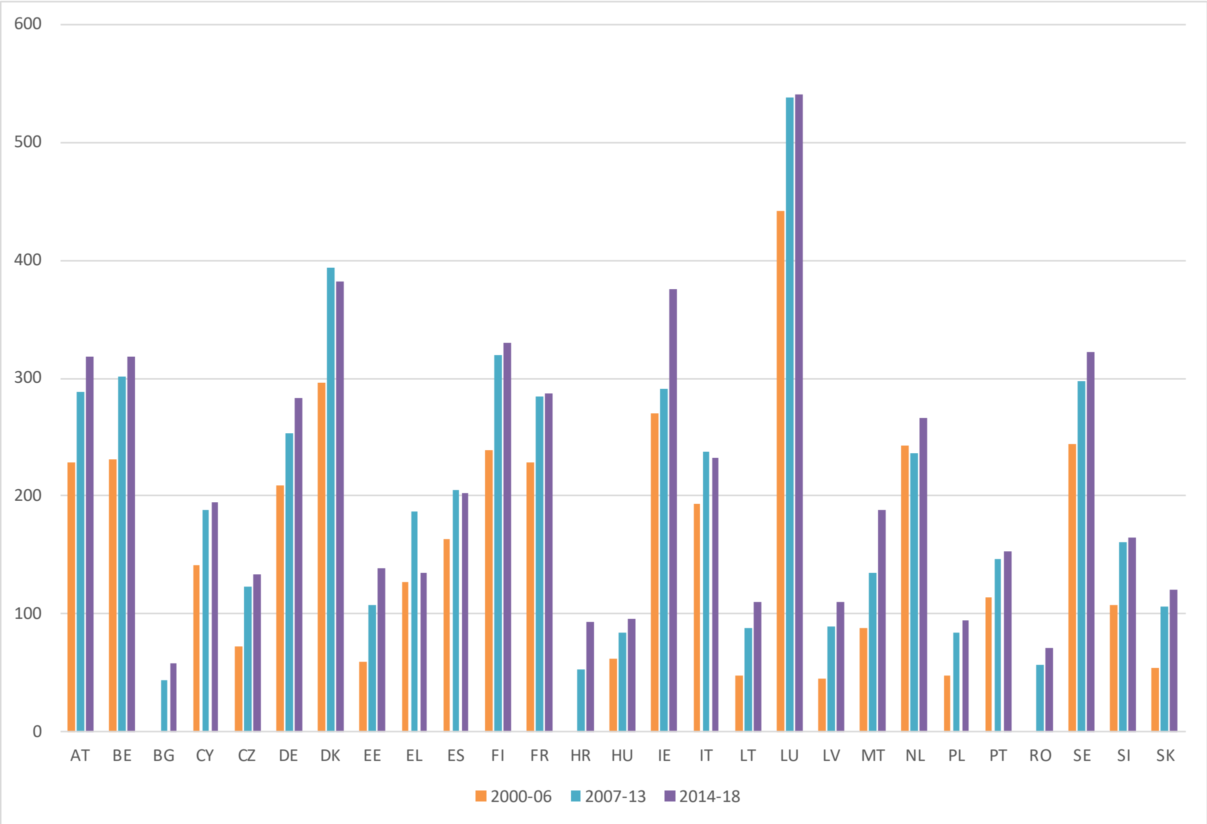
Cohesion Fund contributions from, and spending in member states are analysed per programming period where possible. The data sources available to analyse these trends are split by years, not by programming periods. Therefore, in some years there are overlaps between money spent from two different programming periods. For this reason, assessments are mainly made linked to the full period assessed from 2000 onwards. For any assessments related to individual programming periods, the resulting overlap has to be taken into account. Furthermore, in order to allow for meaningful comparisons between member states of different size, information is generally presented in EUR per capita. To achieve the highest accuracy, per capita values have been calculated per year. In interpreting the figures presented below, the population dynamics over the period thus have to be taken into account. For member states in which population grew over the reference period, no clear pattern can be observed, since both cohesion countries as well as non-cohesion countries fall in this category (Ireland, Luxembourg, Cyprus, Malta and Spain). For member states with shrinking population on the other hand, generally cohesion countries are more likely to be affected from out migration, as the five countries which shrunk the most (Lithuania, Latvia, Romania and Bulgaria) all fall into this category.

The following figure presents national contributions to the EU budget (per capita and as a yearly average) per programming period (2000-2006; 2007-2013; 2014-2018[22]). This illustrates the evolution of contributions in the light of policy changes described earlier in this report. Contribution years vary for several

[22] The harmonised source presenting time-series of payments does not provide information beyond 2018.

countries which joined the EU during these programming periods: Hungary, Cyprus, Czechia, Estonia, Lithuania, Latvia, Poland, Slovenia, Slovakia, Romania, Bulgaria, Malta and Croatia. For example, the national contribution from Croatia, the last country to join the EU (in 2013), spans from 2013 to 2018. As highlighted in Figure 4.1, there has been an increase in total national contributions to the EU budget in absolute terms for all member states, in particular between the 2000-2006 and the 2007-2013 periods, but the increase was smaller for the last period.

**Figure 4.1 National contribution to EU budget 2000-2018 in EUR per capita, yearly average**

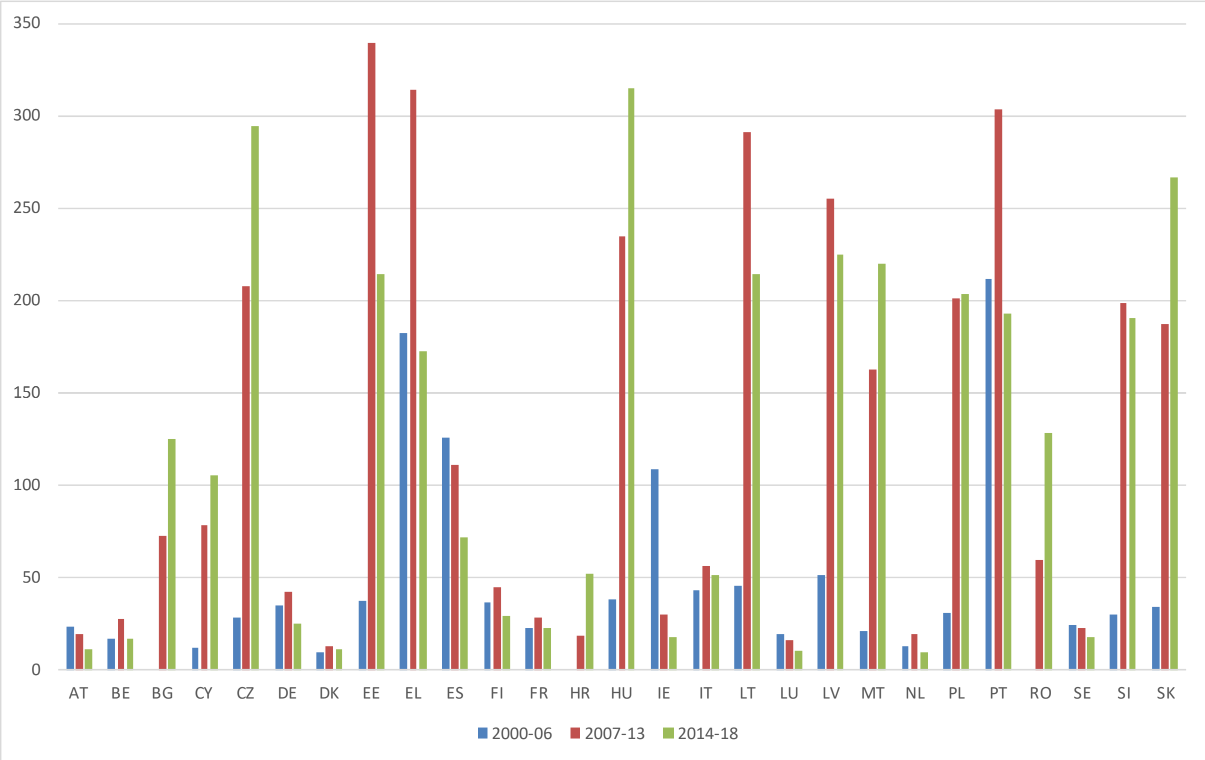



Source: Own elaboration, data from European Commission (2021a).

EU budget contributions by member state (Figure 4.1) are determined by GNI. Member states such as Luxembourg, Ireland and Denmark thus provide significant per capita contributions. The lowest per-capita contributions over this period have been from Bulgaria, Romania and Poland.

In turn, Figure 4.2 depicts the amount received per member state from Cohesion Policy. This covers the Cohesion Fund, ERDF and ESF. Similarly, the spending is split per programming period and the number of years is linked to the accession date of the country.

**Figure 4.2 Cohesion Policy spending in EUR per capita, 2000-2018, yearly average**



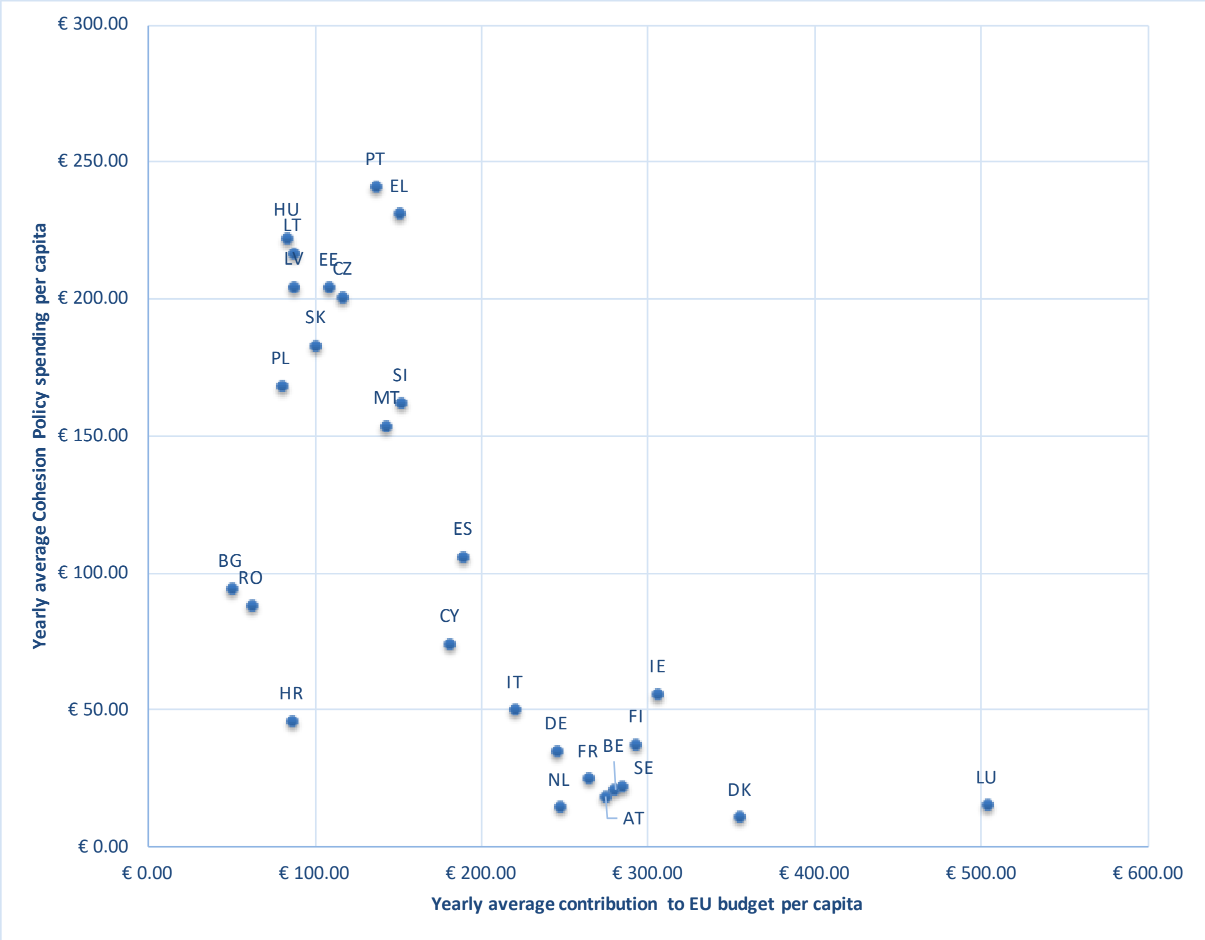

Source: Own elaboration, data from European Commission (2021a)

In accordance with the distribution logic of Cohesion Policy funding, allocations have been concentrated in member states and regions with a lower GDP per capita and less developed economies. Over the three programming periods, contributions towards the wealthiest (in terms of GDP per capita) and 'oldest' (in terms of EU accession) member states have also generally declined. The countries which saw a substantial increase in money received per capita from Cohesion Policy are Bulgaria, Romania, Cyprus, Czechia, Hungary, Malta, Slovakia and Croatia, in other words, countries with below average GDP per capita and which joined the EU in the last 20 years.

Figure 4.3 further depicts the relationship between EU budget contributions and Cohesion Policy spending. This comparison shows that, per capita, countries with a lower GDP see higher annual Cohesion Policy spending and contribute less annually to the EU budget. This holds true for Portugal, Greece, the Baltic States, the Visegrad States (Hungary, Poland, Czechia, Slovakia), Slovenia and Malta. On the other hand, member states with a higher GDP per capita provide a higher annual contribution to the EU budget per capita and receive less annual Cohesion Policy funding per capita, e.g. Luxemburg, Ireland, Finland, Sweden, Denmark, Belgium, Austria and the Netherlands. This shows that the mechanisms of the

European Union, based on GDP per capita, lead to benefits for countries with a lower GDP per capita in two ways: they receive more from cohesion funds and contribute less to the EU budget.

**Figure 4.3 Cohesion Policy spending in EUR per capita and contribution to EU budget, in EUR per capita, yearly average 2000-2018**



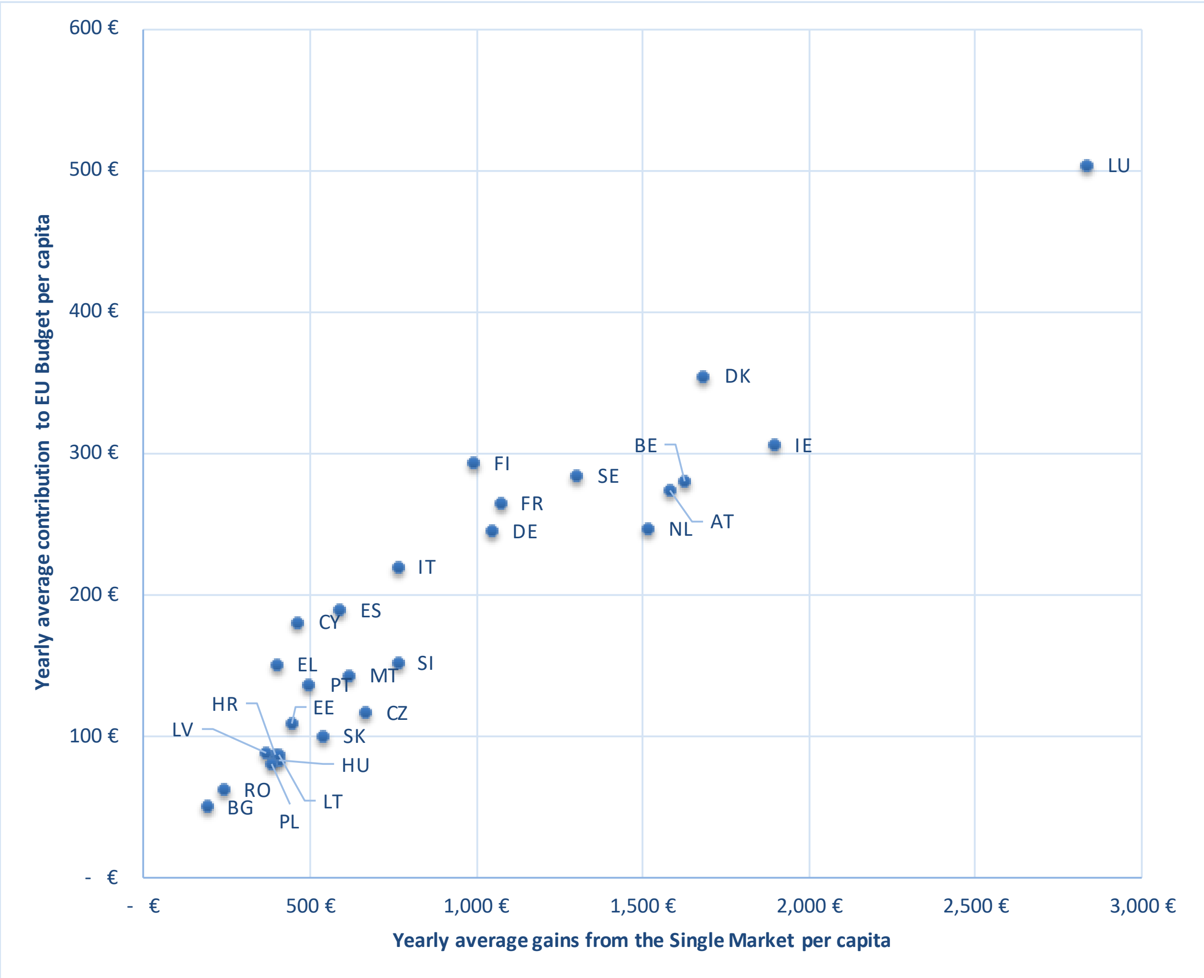

Source: Own elaboration, data from European Commission (2020a) and European Commission (2021a).

The latest countries to join the EU (Bulgaria, Romania and Croatia) have contributed slightly less to the EU budget than other countries with a GDP per capita below the EU average, but also did not receive as much from cohesion funds than 'older' (in terms of EU accession) member states with a GDP per capita below the EU average.

However, examining how much a member state is 'giving' and 'receiving' does not provide in-depth evidence of overall benefits generated by Cohesion Policy investments and economic gains from the Single Market. Very few studies have attempted to measure the economic benefits of the Single Market. One study (Mion & Ponattu, 2019) provides insights into such economic benefits for countries and regions across Europe. They evaluated the impact of trade boosting effects on productivity, mark-ups, product variety, welfare and the distribution of population across European countries and regions.

The annual welfare gains (additional GDP per capita) of the Single Market show that the biggest benefits of participation are concentrated in more developed member states. These also contribute most to the EU budget (Luxembourg, Denmark, Belgium, Austria and the Netherlands saw an increase of more than EUR 1 500/capita/year). Countries contributing least to the EU budget, on the other hand, do not seem to benefit from the Single Market in the same way. The lowest welfare gains are in member states such as Bulgaria, Romania and Poland. Nevertheless, all member states ultimately benefit from participation in the Single Market (Mion & Ponattu, 2019). The following Figure 4.4 further illustrates these patterns.

**Figure 4.4 Contribution to the EU budget in EUR per capita and gains from the Single Market, EUR per capita**

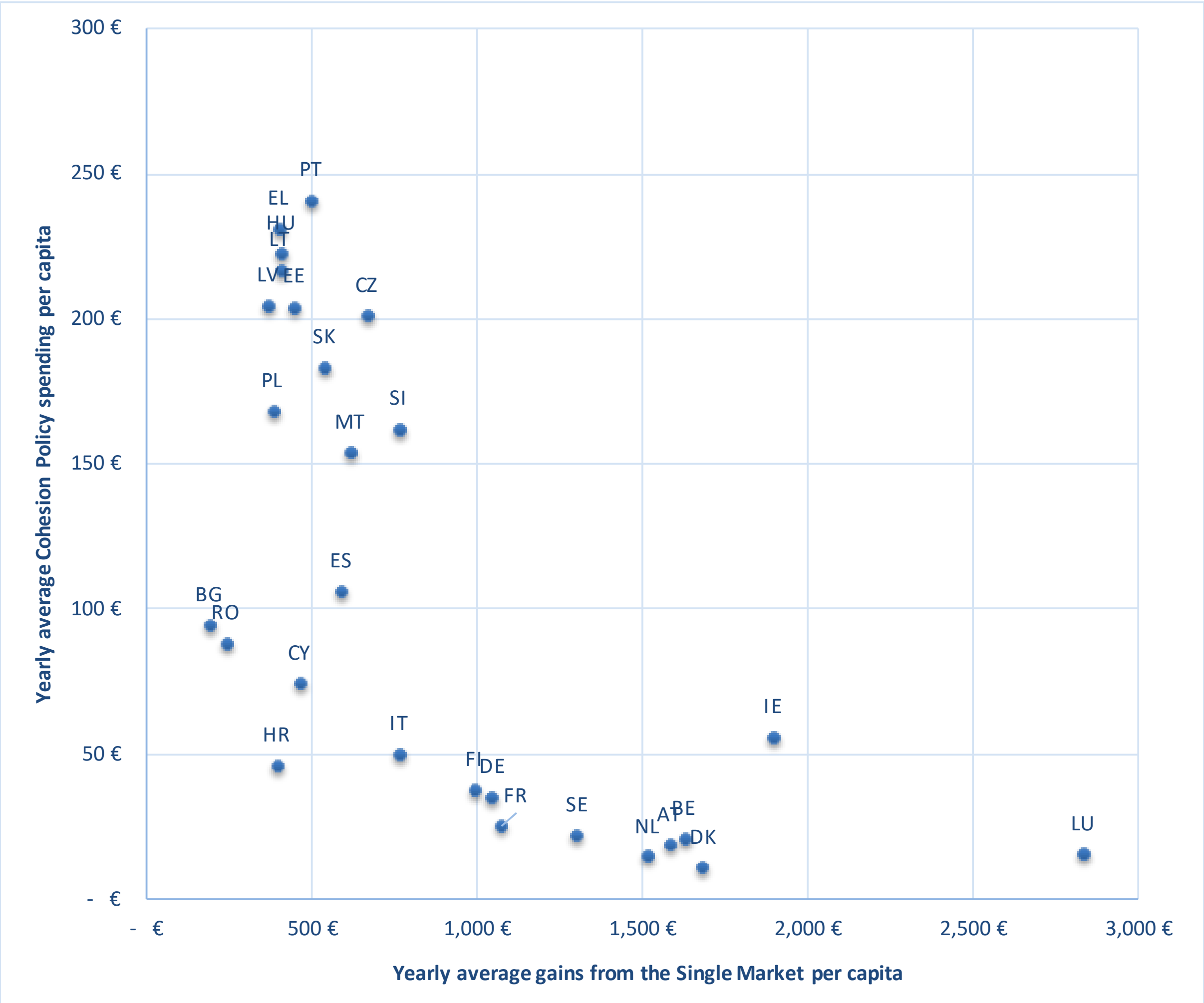



Source: Own elaboration, data from European Commission (2021a) and Mion & Ponattu (2019).

This suggests that economies (the ones concentrated towards the middle and top right of the scatterplot) with more developed international trade relations, not in one economic activity but rather across a whole range of different sectors, are more likely to benefit from the Single Market. Luxemburg also fits in this category, having by far the highest annual single market gains as well by far the highest annual contributions to the EU budget per capita.

Even if gains from the Single Market and costs of contributing to the EU budget cannot give the full picture, the visual display of this comparison allows a statement on the distribution of contributions to the EU budget. Member states that benefit more from the Single Market provide higher annual contributions per capita to the EU budget than those benefitting less.

**Figure 4.5 Cohesion Policy spending in EUR per capita and gains from the Single Market, in EUR per capita**




Source: Own elaboration, data European Commission (2021a) and Mion & Ponattu (2019).

Looking at the link between the amount received from Cohesion Policy funds and gains from the Single Market (Figure 4.5) (both in EUR per capita) illustrates the role of Cohesion Policy to support countries which benefit least from the Single Market. Concentrated on the left side of the scatterplot these countries show some differentiation in Cohesion Policy funding (e.g. between the 'newest' member state (Croatia) and older member states (such as Portugal). However, there are clear similarities to single market gains. The figures simply cover expenditure and do not allow for an in-depth assessment of absorption capacity or other aspects determining the relative position of member states.

Conversely, countries benefiting most from the Single Market (principally older and larger member states) also receive the least from Cohesion Policy funds (those concentrated at the bottom middle to right of the scatterplot). This suggests that Cohesion Policy is adequately addressing the objective of contributing to economic cohesion by strengthening less developed member states and regions.

It is clear that Cohesion Policy expenditure influences the economic, social and environmental performance of EU regions and member states. Multipliers, where an initial impact leverages further gains, and spill overs also influence the impacts of Cohesion Policy. The subsequent section addresses the potential background and extent of such spill overs.

## 4.3 A broader assessment through spill over effects

Cohesion Policy funding, which represents under the current programming period 2021-2027 roughly a third of the European Union budget, creates a range of direct effects through its interventions. These include effects on the overall economic situation of the member states, regional effects linked to Cohesion Policy spending within a region, or beneficiary-level effects linked to a single intervention.

Any targeted intervention/investment creating direct and intended effects crucially also leads to indirect effects within or even outside the realm of the original intervention. These extend beyond the primary beneficiaries of the funding and can affect neighbouring regions, different sectors and policy areas or even the wider economy within and outside the region. Such spill overs can be unintentional or intentional, positive or negative from a regional development perspective.

Considering such spill overs is crucial and several approaches are possible depending on the economic theory applied. Some theories suggest that supporting less developed regions is preferable as spill over effects increase growth in stronger regions. Other theories argue that support is better allocated to economically strong growth poles, as less developed regions will benefit more from spill overs than from direct funding.

As mentioned earlier, Cohesion Policy spill overs so far have been mostly considered from a macroeconomic perspective (see e.g. Römisch, 2020; Maucorps et al., 2020; Christou et al., 2023). Nevertheless, Cohesion Policy does not only create economic spill overs even if these non-economic spill overs are subject to less research, and sources to identify and assess them are limited.

Two groups and respective subgroups of spill over effects can be distinguished:

- Economic
    - Spatial (from region x to region y);
    - Internal (from sector a to sector b within region x).

- Non-economic
    - Balance / justice, (basic public services, fair treatment of citizens);
    - National policies and spending;
    - Governance (increased awareness of the spatial effects of sector policies, improved multi-level governance mechanisms, rule of law).

### 4.3.1 Economic spill over effects

The question of who benefits from Cohesion Policy funding beyond direct recipients of funds is as old as the policy itself. The leading theory regarding economic spill over effects has been linked to a ‘ripple-phenomenon’ where economic growth induced by the policy generates spill over effects beyond targeted regions. These territorial spill overs result from trade relations, technological improvements or reallocation of factors of production (labour and capital) between regions and countries. Several studies have found predominantly positive economic spill over impacts (Christou et al., 2023; Crucitti et al., 2023; Maucorps et al., 2020). Overall, the economic impact of Cohesion Policy funding (beyond its recipients) contributes to GDP growth for the EU as a whole. While concrete impacts on GDP depend on the field of intervention and the time horizon taken into account, Crucitti et al. provide a RHOMOLO model-based assumption of + 0.35% GDP in 2021 based on the 2014-2020 Cohesion Policy spending, with a long-term effect of + 0.16% up until 2033 (Crucitti, Lazarou, Monfort, & Salotti, 2023). In line with these results, the IMF (for an aggregate of all European Structural and Investment funds) estimates a positive multiplier effect of fund investments of 1.2. This means a 1% of GDP increase in ESI fund expenditure leads to an increase of 1.2% in aggregate GDP. Short-term effects after one year can lead to a multiplier of 1.8%. (Durand & Espinoza, 2021).

The main factor creating economic spill overs according to several modelling exercises (see e.g. Crucitti et al., 2023; Römisch, 2020) is an increase in demand from net receivers for products originating from net contributors. Most net receivers of Cohesion Policy funding rely on imports to make their national economy working. In turn, there are several export-oriented economies among net contributors to Cohesion Policy. Therefore, a demand for goods (and services) is created by net receivers which can be satisfied by net payers. This creates direct economic benefits for the exporters through trade as well as indirect economic benefits in terms of employment and stabilising their industrial basis. Regional input-output analyses observed a spill over effect of up to 40% of the initial direct investment for less developed regions, and up to 24% for more developed regions, hinting at mutual benefits for all regions (Römisch, 2020).

A second set of economic spill overs relate to investment in capacity building, research and innovation as well as education, all of which are supported by Cohesion Policy. Outputs of such investments (e.g. research funding) not only benefit the original recipient, but also create innovative effects in industries in other member states through cooperation, imitation and exchange. Compared to trade-related effects, however, these spill overs usually take longer to materialise (Durand & Espinoza, 2021).

Nevertheless, not all economic spill over effects are positive. By design, Cohesion Policy influences the market and favours some actors over others. The distributional logic of Cohesion Policy leads to a territorial concentration of some economic actors, who can improve their market share. While proximity between regions can be beneficial in terms of lowering market transaction costs, it can cause a potentially negative spill over effect as described by Breidenbach, Mitze, & Schmidt (2019). A high demand for specific resources (including skilled labour) can impact prices in regions where funding is introduced in the short run. As such, competition for scarce resources can be intense and not easily balanced through imports or migration in this short time. If regions in close geographic proximity are supported in similar fields and topics (e.g. renewable energy), as is often the case with Cohesion Policy, this leads to regional competition for these scarce resources resulting in short term price increases, which may in turn annihilate the positive economic impulse of the Cohesion Policy support (Breidenbach et al., 2019).

A critical challenge is the sustainability of these spill overs. As regional economic development through Cohesion Policy progresses, the competitive advantage of low costs may diminish. As a result, some industries – especially those operating in a global market with products of low differentiation, would soon be confronted with the competition of companies being able to profit from a better cost-benefit ratio and thus have the choice of giving up, differentiating into other markets or relocate outside the EU to regions with even lower production costs, such as Asia. This shows that Cohesion Policy is not immune to the complexities of the global market. Another negative effect might occur if Cohesion Policy would largely support companies in already existing markets with low level of innovation where the long-term economic success is put into question. If Cohesion Policy would not focus on supporting innovation and increasing productivity the policy could support quite a number of prospective losers while limiting the number economic hopefuls that would actually benefit from the direct and indirect economic carry-on effects of the support.

### 4.3.2 Non-economic spill overs

The following non-economic spill overs can be considered.

***Balance / Justice***

The spill over in terms of balance / justice touches upon a core element of cohesion, the question of equal access to basic public services for citizens regardless of their residence. The availability of these services and access to them has been supported by Cohesion Policy including through improved transport infrastructure, sustainable mobility, broadband and ICT investments along with support for digital skills and competences. Such investments may create a pull-effect for people from economically disadvantaged regions to stronger regions (Gløersen et al., 2016). The brain-drain induced by this pull effect is however a negative externality reinforcing challenges faced by shrinking regions (ESPON, 2017). Another negative spill over effect of better access is crowding out local and regional goods and services. The underlying rationale is that, in the short run, better access leads to an inflow of more competitive goods and services (with lower prices). This generates negative spill overs by crowding out relatively less competitive enterprises which provide local employment and as such support people staying in their respective regions. Moreover, this effect may reduce the diversity of goods and services, which although less cost-competitive, offer local and regional know-how and other positive externalities such as more sustainable production methods, traditionally anchored in the region. These development trends and intertwined challenges are notably reflected in cohesion as an overall value of the European Union which implies that cohesion as an aim of the EU needs to be embedded in all EU policies (Böhme, Topsidou, Zillmer, Lüer, Valenza, Amichetti, Schuh, Gaupp-Berggausen, & Hrelja, 2021) as also noted in the ESPON policy briefing on shrinking regions (ESPON, 2017).

***Influence on national policies and spending***

Cohesion Policy sets the overall policy orientations and objectives. Cohesion Policy programmes accordingly follow these general directions, tailoring them to the specificities and needs of their territories. Going beyond the co-financing obligation, member states may also act in a proactive manner, exceeding the minimum required funding allocation and/or focussing on certain fields or territories, e.g. climate action, innovation and lagging territories. By design Cohesion Policy should support national efforts to address economic, social and territorial cohesion. As such, thematic and funding spill over may occur in line with the search for synergies and complementarities between EU and other sources of funding at national and sub-national levels. Parallel policy developments may also occur, e.g. national and regional strategies may be influenced to match or be aligned with Policy Cohesion programmes and interventions – thus creating the spill-over of Cohesion Policy, that national/ sub-national sectoral policies may be "inspired" by Cohesion.

Another form of positive spill over may occur when the outcomes of Cohesion Policy-funded projects are taken up by national/regional policy makers. Capitalising on successful projects or best practices is a particular focus of Interreg programmes. This may either be seen by 'upstreaming' project outcomes (i.e. at national policy level[23]) and/or on 'down-streaming' results to other regions.[24] Such spill overs are particularly relevant to the uptake and role of Interreg-funded projects, as shown in Interreg programmes evaluations (see e.g. Schuh, Gorny, Derszniak-Noirjean, Gaugitsch, & Badouix, 2021)

### *Governance*

Governance-related spill overs of Cohesion Policy are linked to the circumstances and environment in which Cohesion Policy is established and 'managed' across Europe. In this respect, such spill overs can 'enable' how Cohesion Policy is delivered in the territories.

As indicated earlier, Cohesion Policy provides a similar implementation framework across all member states. While implementation and priorities vary per Cohesion Policy fund, country and/or region, a common legal structure detailing common requirements, rules, standards and principles applicable to Cohesion Policy funds[25] must be respected by all member states. As a result, convergence in terms of institutional legal, bureaucratic and administrative

23 e.g. by picking up of policy recommendations, or development of standards and rules within certain projects

24 e.g. by transferring project results to other regions, picking up standards and rules developed in projects in other regions

25 As enshrined in the General Provisions for the 2007-2013 period, in the Common Provisions Regulation for recent programming periods and accompanying implementing regulations.

quality should be expected. One positive spill over may be increased transparency from equally applicable standards of governance, which may spread to other spheres of national and regional policy making. For example, as the EU fosters more efficient, transparent and results-oriented planning, management and monitoring of EU-funded interventions, public authorities may be encouraged to follow the same approach for the management of national and regional programmes or funding schemes, leading to possible improvements in administrative capacity and institutional quality. Likewise, as the implementation of Cohesion Policy programmes may foster exchanges and networking between public authorities across all member states, this can provide opportunities to gather new ideas, solutions and approaches shaping national and regional policymaking.

The role of Cohesion Policy is significant, not only regarding its funding support, but also for the administrative learning that can spread across national and regional administrations, as well as the sense of belonging in the EU that it generates among citizens. Such policy learning may have spill over effects across territories and policy sectors and establish good practices for transparent, accountable and effective public policies and spending, contributing to the institution building across the EU.

# 5 Future scenarios for Cohesion Policy

The following chapter looks at three different future scenarios for EU Cohesion Policy.

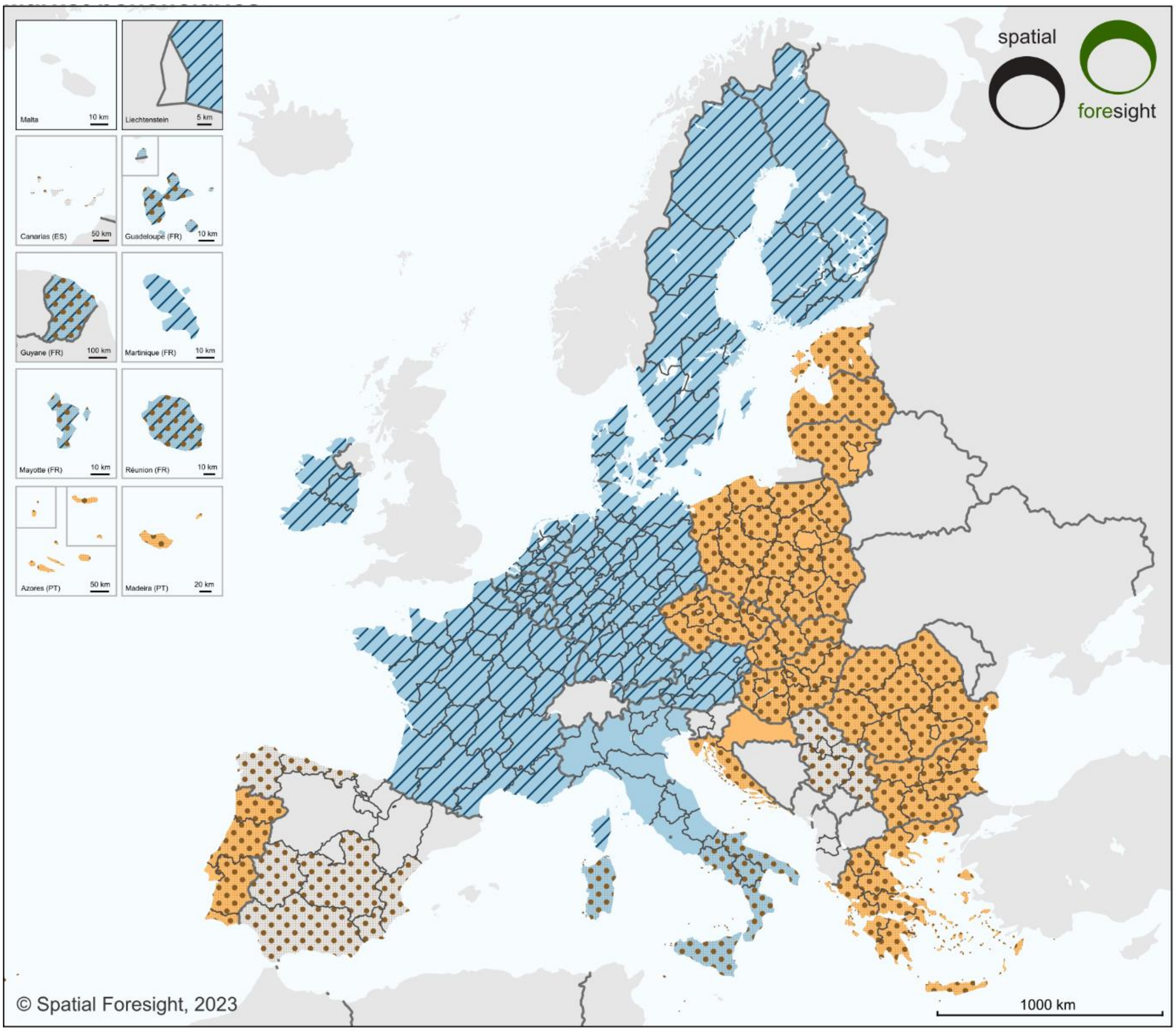
**Understanding scenarios**

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 to them. Scenarios support thinking out of the box and can bring added value to dialogue on policies affecting territorial development.

The three scenarios created for this study draw inspiration from the 2018 European Commission's Communication entitled ‘A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020’. While they do not reflect the official position of the

European Committee of the Regions, it is however likely that they reappear in the further debate on the future of cohesion policy and the future of the Single Market.

**Map 5.1 Less developed regions (GDP per capita < 75% of EU average) and member states (GDP per capita < 75% of EU average), major EU budget contributors, and the biggest Single Market beneficiaries (GDP per capita, 2021)**




Data source: Eurostat, "Gross domestic product (GDP) at current market prices by NUTS 2 regions", [nama_10r_2gdp] (2021).
Administrative boundaries: Eurostat GISCO, NUTS 2 (2016).

- Largest Single Market beneficiaries, EUR per capita above EU average
- Largest EU budget contributors, EUR per capita above EU average
- Less developed member states, GDP per capita <75% of EU average
- Less developed regions, GDP per capita <75% of EU average

Source: Own elaboration. Data from Eurostat and Mion & Ponattu (2019).

The three scenarios are developed following a qualitative approach, an update of the data used (GDP 2021) and authors' assessments based on territorial impact considerations. The three scenarios are based on the following assumptions with respect to the eligibility of regions/ member states for Cohesion Policy support.

i) Cohesion Policy for **all regions**: all NUTS 2 EU region are eligible for funding (see section 5.1). This may be seen as "baseline" scenario following the status quo.

ii) Cohesion Policy only for **less developed regions** (i.e. NUTS 2 regions with a GDP per capita <75% of EU average, 2021) (see section 5.2)

iii) Cohesion Policy for **less developed member states** (i.e. member states with a GDP per capita <75% of EU average, 2021) (see section 5.3).

The main difference between scenario ii) and scenario iii) is that some of the regions, especially capital cities in less developed member states (GDP per capita < 75% of EU average), may not fall into the category "less developed regions" (GDP per capita < 75% of EU average) and would therefore not be eligible to funding under scenario ii), while they would be eligible to funding under scenario iii). Map 5.1 shows the types of territories addressed in the three scenarios.

For each scenario the key assumptions, the eligible areas, implications on economic, social and territorial cohesion, and territorial cooperation are identified, as well as the implications for the Single Market and the green and digital transitions, which are a current focus of EU policy.

## 5.1 Cohesion Policy for all regions – A scenario

The scenario 'Cohesion Policy for all regions' focuses on Cohesion Policy support dedicated to all regions of the EU. This continues a strong focus on investment in all regions in areas like innovation, green and digital transition, job creation, SME support, etc. (European Commission, 2018).

| **Cohesion Policy for all regions – A scenario** | |
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| | |
| **Assumptions** | The scenario has been developed with a number of assumptions. These include<br><br>• Cohesion Policy funding remains available to all regions in the EU (NUTS 2 level) remains roughly the same, with the aim of alleviating and counterbalancing |

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| | negative effects of the Single Market and enabling participation of all people and places in the EU.<br><br>• As seen in previous chapters, Cohesion Policy has often acted as a first responder to new challenges and crises and continues doing so in the efforts towards the twin transitions. However, several changes are to be imagined here, as the twin transitions may pose additional challenges to the regions (European Commission, 2022b).<br><br>In this scenario, the Single Market is in place, while the green and digital transitions remain key priorities of the EU. European Territorial Cooperation continues, with support being dedicated to regions for transnational, cross-border, interregional, macro-regional cooperation. |
| Eligible areas and rationale | In this scenario Cohesion Policy's eligible areas are all EU regions, irrespective of the fact that they benefit from the Single Market or not.<br><br>The scenario covers regions of countries that are EU Single Market beneficiaries, such as Ireland, Denmark, Sweden, Finland, France and Germany, these countries together with Italy being the largest EU budget contributors (see Map 5.1).<br><br>Less developed member states and regions, i.e. with a GDP per capita lower than 75% of the EU average, situated mostly in South, Central and Eastern Europe are recipients of cohesion policy funding.<br><br>Cohesion Policy continues to hold significant importance for regional development in all regions. |
| **Possible implications for:** | |
| Economic cohesion between member states | The evolving economic landscape, with reduced government spending and increased public debts posing a challenge after the COVID-19 pandemic crisis (European Commission, 2022b) may necessitate a more careful approach to budget allocation, focusing on the efficient use of resources. These could force a further shift towards |

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| | a more targeted and focused Cohesion Policy, with a stronger focus on (non-economic) spill over effects, policy innovation and cooperation to better utilise synergies. Given that the level of Cohesion Policy funding would remain the same, the relevance of Cohesion Policy compared to national efforts would grow.<br><br>Possible future enlargements of the EU could also change the dynamics substantially and put additional pressure on Cohesion Policy particularly if no additional resources are provided.<br><br>Greater collaboration between regions, bringing non-economic spill overs and policy learning may be necessary. Furthermore, cooperation between public and private actors would need to be boosted in order to further deepen the green and digital transition (European Commission, JRC, 2023) to develop synergies, enabling territories to achieve more collectively than they would individually.<br><br>Importantly, the values of unity and solidarity that lie at the heart of the European project today remain the key objectives throughout this scenario. |
| Economic cohesion between regions (within member states and across the EU) | Despite the fact that all regions will benefit from funding, disparities are likely to persist. As not all regions grow and prosper the same way, economic inequalities may persist across member states (European Commission, 2022b).<br><br>Given its limited role Cohesion Policy particularly if no additional efforts at national level would be made to address existing development imbalances between regions (urban, peri-urban and rural) there is a risk that these efforts cannot counterbalance predominant market forces and competitive advantages.<br><br>Transition and more developed regions, which face development traps (especially those located in higher developed member states) would receive further support. |

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| Social cohesion between member states | Despite aiming for social inclusion and inclusive development, the limited funding of Cohesion Policy on its own may not succeed in reducing social disparities, given that social cohesion is often influenced by economic factors (European Commission, 2022b). This regards both economically advantaged and disadvantaged member states. In other words – the overall economic situation, the limited funding of Cohesion Policy and the lack of national efforts may result in an underachievement of social cohesion for all. |
| Social cohesion between regions (within member states and across the EU) | It is highly likely that social disparities may persists in future, despite Cohesion Policy support (European Commission, 2022b) since it depends on many factors and policies that go beyond the policy. This is particularly relevant for regions who have been facing particular social challenges and inequalities and may find themselves more challenged in comparison to more advanced regions. Such social challenges may impact social cohesion between the regions further. |
| Territorial cohesion between member states | As this scenario unfolds, it would have varying implications for different territories. Some may successfully adapt and thrive, leveraging the policy to their advantage. Others might face transitional challenges, requiring time to navigate the shifting landscape. Meanwhile, a subset of regions could encounter setbacks due to the changing dynamics. For these regions, Cohesion Policy should particularly ensure a fair transition, strengthen the resilience and responsiveness to asymmetric shocks, help them to respond to demographic changes and address any pressure to its values and culture (European Commission, 2022b). |
| Territorial cohesion between regions (within member states and across the EU) | Matching benefits of the Single Market reaped by advanced regions in net paying countries with the struggles faced by disadvantaged regions continues to be a delicate task since countries that contribute most to the EU budget – and by proxy also to Cohesion Policy – also benefit most from the Single Market, as reflected in Chapter 4. |

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| | While the likelihood of higher disparities is moderate in the short run, the potential impact is high in the long term, leading to significant divergence between regions. This assumption is based on the negative spill over effect as described in Section 4.3.1. above. Hand in hand go uneven benefits from the Single Market, potentially as a consequence of the capacity of a region to reap the benefits. Benefitting simply from the competitive advantage these regions may rely on. |
| European Territorial Cooperation | Territorial cooperation continues playing an important role in this scenario. Nevertheless, Interreg's budgetary constraints (as compared to other Cohesion Policy support) limit a potential investment in larger projects and supporting the replication or scale-up of good projects, while at the same time, administrative and legal obstacles may hamper more intense cooperation. Furthermore, enhanced synergies (with other policy support instruments) may be necessary to reap more benefits from the support. However, there may potentially be more competition between regions to attract funding, not harnessing the essence of cooperation. |
| **Single Market (four freedoms) and economic prosperity** | Different national development dynamics may pose challenges as to the level playing field within the single market. This may lead to imbalanced growth across the EU with consequences for economic and social cohesion. To maximise the benefits of the Single Market for all, EU would need to develop policies and programs which aim at creating a level playing field in areas such as services, capital markets, energy markets, digital and data markets. Some economic sectors might deserve special attention in order to unleash their highest untapped potential such as retail, construction or tourism (European Commission, 2023c). |
| Green transition | Based on the assumption that the green transition remains a key priority for the EU, new opportunities for growth but, equally new challenges will emerge (European Commission, 2022b). Furthermore, as regions will benefit differently from Cohesion Policy support, regional disparities in green development may influence the |

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| | overall achievement of green transition targets. The territorial impact of the green transition maybe uneven from a geographical perspective, as some regions are more exposed than others to the major shifts emerging from the European Green Deal (Rodrigues-Pose & Bartalucci, 2023). Lastly, a strategic focus on projects with a potentially high impact and high investments may overlook smaller local initiatives, challenging social and economic cohesion in less developed regions (GDP per capita < 75% of EU average). |
| Digital transition | Based on the assumption that the digital transition remains a key priority for the EU there is a risk that it moves forward at different speeds across Europe. As its completion will require high speed internet access, digital skills and investments in IT equipment, the progress towards that may differ in regions lagging behind those elements (European Commission, 2022b). Following that, uneven digital advances may be observed, with some regions thriving technologically and others being left behind. This may widen the digital divide across EU regions. |

Looking at this scenario by type of region or country, the table below provides an overview of benefits from Cohesion Policy financing and spill over effects and what that would imply for cohesion and the development of less developed, transition and more developed countries and regions, as well as regions facing development traps (see definition provided in Section 2.4 above).

Note:
Less developed regions: GDP per capita <75% of EU average
Less developed member states: (GDP per capita < 75% of EU average)
Regions in transition: GDP per capita 75-100% of EU average
Member states in transition: GDP per capita 75-100% of EU average
More developed regions: GDP per capita >100% of EU average
More developed member states: GDP per capita >100% of EU average

## Table 5.1 Cohesion Policy benefits by type of region

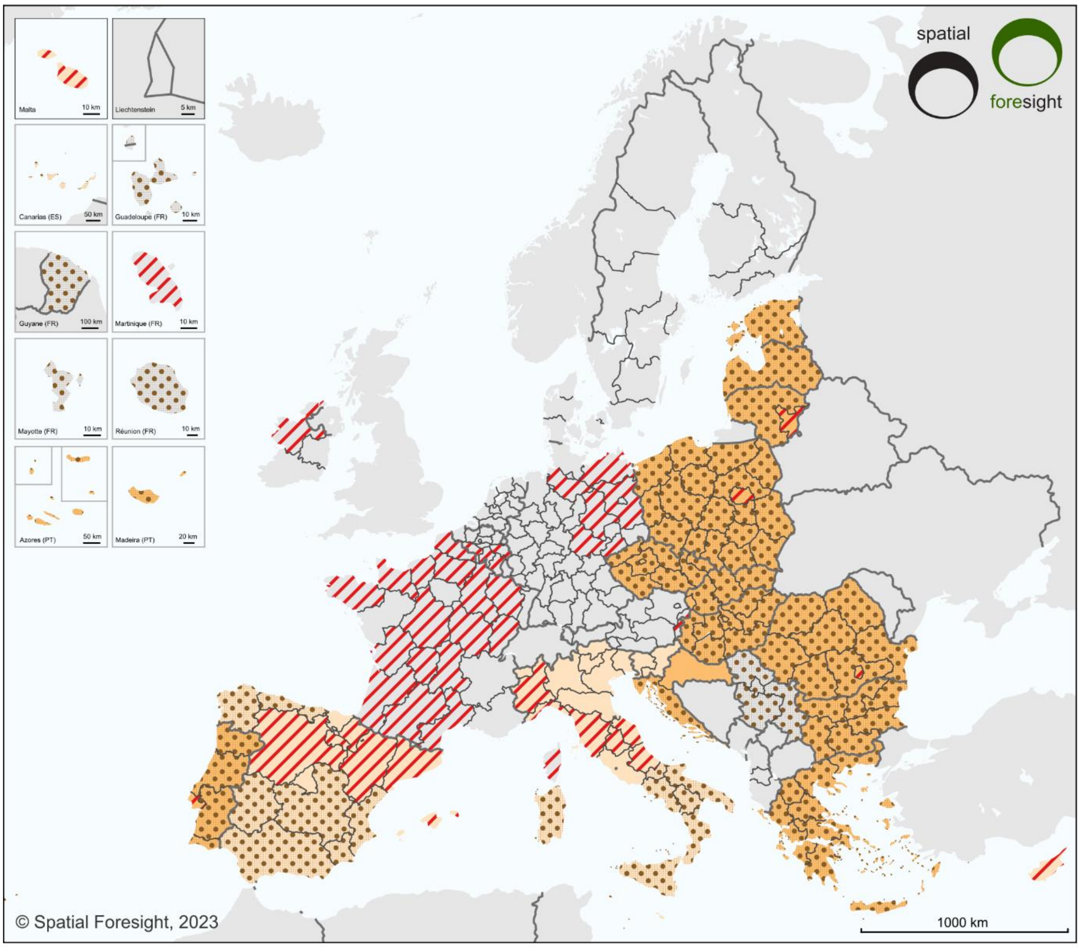
| | Less developed regions | Transition regions | More developed regions | Trapped regions | Summary |
|---|---|---|---|---|---|
| **Less developed member states** | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>• Policy learning | • Possibility for cohesion within less developed member states as all regions receive support<br>• Possibility for less developed member states to catch up |
| **Transition member states** | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>• Policy learning | • Possibility for cohesion within transition member states as all regions receive support<br>• Possibility for transition member states to further develop |
| **More developed member states** | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Economic spill over effects<br>• Policy learning | • Possibility for cohesion within more developed member states as all regions receive support<br>• Possibility for more developed member states to further strengthen their competitiveness |
| **Summary** | • Possibility for less developed regions to catch up due to financial and non-financial effects of Cohesion Policy | • Possibility for transition regions to further develop due to financial and non-financial effects of Cohesion Policy | • Possibility for more developed regions to further develop their international competitiveness and fight pockets of poverty due to financial and non-financial effects of Cohesion Policy | • Possibility for trapped regions to get out of the trap due to financial and non-financial effects of Cohesion Policy | |

Source: own elaboration

## 5.2 Cohesion Policy only for less developed regions (GDP per capita <75% of EU average) – A scenario

The scenario ‘Cohesion Policy only for less developed regions’ focuses on Cohesion Policy support dedicated only to less developed regions of the EU, i.e. regions with GDP per capita <75% of the EU average.

**Map 5.2 Less developed regions and member states (GDP per capita < 75% of EU average), regions and member states in transition (GDP per capita 75-100% of EU average)**




Data source: Eurostat, "Gross domestic product (GDP) at current market prices by NUTS 2 regions", [nama_10r_2gdp] (2021).
Administrative boundaries: Eurostat GISCO, NUTS 2 (2016)

- Less developed regions,GDP per capita <75% of EU average
- Regions in transition, GDP per capita 75-100% of EU average
- Less developed member states, GDP per capita <75% of EU average
- Member states in transition,GDP per capita 75-100% of EU average

Source: Own elaboration. Data from Eurostat.

Under this scenario, support for regions in Austria, Belgium, Denmark, Finland, mainland France, Germany, Ireland, the Netherlands, Sweden and regions in Spain would be discontinued in comparison to the current situation 2021-2027. (see Map 5.2). While those regions may not be receiving funding, they may still be benefitting from spill over effects.

| **Cohesion Policy only for less developed regions (GDP per capita < 75% of EU average) – A scenario** | |
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| **Assumptions** | The scenario has been developed with a number of assumptions. These include<br><br>• Cohesion Policy funding for less developed regions continues with roughly the same budget as today.<br><br>• Cohesion Policy funding is allocated only to less developed regions with a GDP per capita below 75% of the EU average of the EU.<br><br>• The green and digital transitions remain as key priorities of the EU.<br><br>• European Territorial Cooperation continues, with support being dedicated to the less developed regions (GDP per capita < 75% of EU average) only. |
| Eligible areas and rationale | As shown in Map 5.2, less developed regions are largely in Southern and Eastern Europe, mainly the north and south of Spain, Portugal, southern Italy, Croatia, Greece, as well as regions in Romania, Bulgaria, Hungary, Czechia, Slovakia, Poland and the Baltic States.<br><br>Even if many less developed regions are situated in Eastern and Central European countries, some urban centres/ capital regions in these countries would not be eligible to cohesion policy funding. |

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| | No regions currently classified as "in transition" (GDP per capita 75-100% of EU average) would be eligible for funding under this scenario.<br><br>The essence of this scenario lies in channelling interventions and funding towards regions most in need, the less developed regions (GDP per capita < 75% of EU average). This could yield increased growth in receiving regions which, might in turn, make a more substantial contribution to the EU economy. Importantly though, this must be accompanied by a focus on capacity building in Cohesion Funds administration and governance to effectively translate the infusion of funds into tangible progress (Rodríguez-Pose & Garcilazo, 2015). |
| Possible implications for: | |
| Economic cohesion between member states | Although for the less developed regions (GDP per capita < 75% of EU average) Cohesion Policy investments are accompanied by non-economic spill overs and policy learning, development for regions in transition (GDP per capita 75-100% of EU average) or more developed regions (GDP per capita > 100% of EU average) may show.<br><br>Firstly, diverse economic growth, as less developed regions (GDP per capita < 75% of EU average) may boost their economic growth, while regions in more developed member states (with a GDP per capita > 100% of EU average) do not benefit from Cohesion Policy and thus may see their development dynamics slow down. This is based on the regional economics phenomenon that in the short run less developed regions will reap the benefits of their relative competitive advantage due to substantial support, while developed regions will in relative terms fall behind or stagnate. This can create new economic growth patterns in the EU. More developed member states (GDP per capita > 100% of EU average) may feel |

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| | ‘left behind’, as they would have less support to prosper economically, experiencing inequalities and dissatisfaction.<br><br>Migration towards member states with less developed regions (GDP per capita < 75% of EU average) may increase, as more employment opportunities in new fields may emerge in these areas.<br><br>Less developed member states (GDP per capita < 75% of EU average) may enhance their domestic cohesion as they will be supported to reduce economic disparities. |
| Economic cohesion between regions (within member states and across the EU) | As less developed regions embark on development and growth, businesses originating from more developed parts of the EU might identify investment potential in these areas. This strategic perspective recognises untapped market opportunities in less developed regions. While the infusion of investment could lead to greater cooperation and synergies, progressive development in less developed regions could inadvertently increase competition within the EU, across regions.<br><br>Amidst this transformative potential lies an inherent challenge. A continuous quest for development, aided by Cohesion Policy only for the less developed, could make cohesion more static. Regions may face a constant “threat” to reach a development threshold (i.e. the GDP level, where they will be no longer be eligible for support), which will lead to a “freezing” effect of regional development.<br><br>This future also raises a series of interconnected challenges. Regions that currently prosper, if excluded from funding, may perceive they are being treated unfairly. This sense of inequity is particularly pronounced in transition regions (GDP per capita 75-100% of EU average). This |

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| | scenario will not support transition (GDP per capita 75-100% of EU average) or developed regions (GDP per capita >100% of EU average) facing development traps and could even result some "new" regions falling into development traps, for those regions which would struggle to maintain their economic vitality (Diemer, Iammarino, Rodríguez-Pose, & Storper, 2022).<br><br>Another result may be that there will be other regions lagging behind, often within the country and in relation to the EU more broadly, as regions may not have the means to develop further. As a result, these regions might remain where they are and lag their counterparts. A potential consequence of this dynamic is advanced regions experiencing a long-term developmental plateau. The imbalance could create an unexpected 'reverse left behind', where more developed regions feel deprived of investments for further growth.<br><br>All these assumptions would have to be substantiated by further research. One of the major counter-argument being, that in the most developed regions, Cohesion Policy funding does not represent such a level of public support compared to their existing wealth and public resources that the economic impact of no cohesion funding will not make any difference.<br><br>Concentrating the funding only on less developed regions could also lead to increased fragmentation in more developed, urban areas not eligible for funding and thus not capable or willing to deal with intra-regional disparities, resulting in increased fragmentation.<br><br>The outcome of this scenario might be a form of cohesion that is not aligned with the original vision of cohesion and the Single Market in the |

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| | EU whereby cohesion and growth happening in parallel.,. |
| Social cohesion between member states | Dedicated Cohesion Policy support for the least advantaged regions may reduce disparities in the economic and the social sphere and may spark economic progress. The targeted and strategic investments may fuel advances in different sectors (e.g. health care, education) and be the base for sustainable economic growth. Furthermore, this can stimulate local economies, increase local growth and employment and entrepreneurship. As a result, social inclusion and cohesion will increase, reducing inequalities and offering these regions the opportunity to catch up with the more developed ones.<br><br>Further positive impacts may be observed in the environment and technology fields, investments in which can reduce disparities and open the opportunities for more growth.<br><br>While Cohesion Policy only for less developed regions would include important positive developments such as increased growth and an increased sense of equity for those receiving funding, there may also be some challenges.<br><br>These might not be felt immediately, but over time regions risk drifting increasingly far apart. Excluding currently prosperous regions from Cohesion Policy funding might lead to a perception of unfair treatment. Uneven development with less developed regions catching up could result in some regions experiencing a "reversed left behind" effect. While less likely, the impact would be large. One-sided funding could also lead to increased fragmentation in more developed, urban areas not eligible for funding and thus not capable or willing to deal with intra-regional disparities, resulting in increased fragmentation, including increasing numbers of |

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| | pockets of poverty. The empirical evidence of pockets of poverty development and their driving factors has been covered by ESPON (see ESPON, 2014) or the World Bank (World Bank, 2016) and the (lack of) support to lift these disparities has not changed since then.<br><br>Furthermore, this scenario will lead to a shift in regional development priorities for more developed regions (with a GDP per capita > 100% of EU average) in the long-run, with external trade and global competitiveness prioritised to compensate for the lack of Cohesion Policy support. |
| Social cohesion between regions (within member states and across the EU) | From a social perspective, less developed regions could experience an enhanced sense of equality, less deprivation and citizens less prone to feeling left behind. However, this might lead to increased fragmentation in larger urban areas, particularly in more developed regions (with a GDP per capita > 100% of EU average). Such fragmentation could be a catalyst for Euroscepticism, because if high growth is unevenly dispersed the risk of social unrest increases in the sense that large parts of the population may feel left out and do not see any immediate benefits from the EU membership (see e.g. the high share of Euroscepticism in Austria according to Eurobarometer) (Rodriguez-Pose et al., 2023).<br><br>As more opportunities become available in less developed regions (GDP per capita < 75% of EU average) the current brain drain might be reversed and outward migration of skilled labour would be reduced. This may also lead to more developed regions (with a GDP per capita > 100% of EU average) increasingly focusing on external trade, seeking growth outside the EU to compensate for the lack of cohesion support that would otherwise |

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| | fund investments in for example innovation and competitiveness. |
| Territorial cohesion between member states | Increased funding for less developed regions, coupled with concerted capacity building, might pave the way for leapfrogging, propelling regions into the realm of advanced technologies and green innovation. Thematic concentration of Cohesion Policy could ensure to support this transformation. This could result in tech hubs and islands of innovation in the receiving regions that is to say in places which are not very technologically advanced today. The spatial distribution of tech and innovation hubs would be more balanced in the whole EU. This geographical dispersion signifies a departure from traditional innovation epicentres, possibly democratising technological advances and hence growth. |
| Territorial cohesion between regions (within member states and across the EU) | More developed regions may focus more on international markets, potentially through trade innovation, and turning their backs on regional realms. As when prioritising less developed regions (GDP per capita < 75% of EU average), disparities persist, polarisation continues, or even grows and society weakens. Once again strong governance is important to counteracting this development (Barbero et al., 2023). Heightened social and economic divides within more developed societies could erode collective strength and make addressing major challenges even more complex. The polarisation movement may create enough centrifugal force to endanger the social ties and solidarity within society thus hindering collectively agreed upon action.<br><br>Another development induced within this scenario may be that, with Cohesion Policy being concentrated on less developed regions (GDP per capita < 75% of EU average) that often have a higher share of places with lower economic prosperity (rural areas, small and medium sized |

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| | cities), medium-sized cities (as providers of critical masses for regional development) could develop further. A network of these might emerge, unified by focal points such as technology, the circular economy and social inclusion. The resulting synergies could foster increased growth and innovation, often seen with successful clusters (Boschma, 2005). |
| European Territorial Cooperation | European Territorial Cooperation continues and plays a big role in this scenario.<br><br>Firstly, increased territorial cooperation is expected among the less developed regions (GDP per capita < 75% of EU average), as advances and growth in these territories may increase their extroversion and eagerness to cooperate more and enhance their potential.<br><br>In addition, new cooperation networks may arise, in for instance innovation, technology and sustainability, sharing knowledge and expertise across regions. |
| **Single Market (four freedoms) and economic prosperity** | The effects of this scenario on the Single Market would vary. Having Cohesion Policy only for less developed regions would possibly in the future alter the dynamics of trade and competition. More specifically, investments in less developed regions may stimulate those economies and open broader market opportunities, influencing the competitive dynamics within the Single Market. More advanced regions (GDP per capita > 75% of EU average) may find themselves in a challenging position, as they may compete with regions that the only ones to be supported by EU funding. Furthermore, the more advanced regions may also direct themselves towards global market opportunities, instead of investing and cooperating further within the country or the EU. Last but not least, this reverse 'left behind' effect may result in further disparities causing |

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| | disruptions to the functioning of the Single Market. |
| Green transition | If funding on less developed regions is targeted to support projects and initiatives focused on the green transition priority, these regions may become places of green innovation. They would leapfrog and catch up with more developed regions, green-tech investments may spread across the EU and less developed regions might become green-tech centres and places fostering sustainable growth. The European Commission has been fostering this very idea also within the Common Agricultural Policy through the European Innovation Partnership (EIP-AGRI) initiatives since 2012. It brings together innovation actors (farmers, advisers, researchers, businesses, NGOs and others) in agriculture and forestry, at EU level. Together they form an EU-wide EIP network. EIP Within this network, Operational Groups, Multi-actor projects and Thematic Networks are all key building blocks. This network idea has helped spreading and speeding up green innovation in lagging rural regions. This green transition could be accompanied by using the European emission trading system by giving incentives of offsetting own emissions by inducing green technologies in less developed regions.<br><br>Nevertheless, the key green, digital and demographic transitions may create new disparities and further challenge the EU (European Commission, 2022b). In many vulnerable regions, the green transition may fall because it would not address pre-existing challenges (e.g. social disparities, poverty, low qualification), which may shift regional development priorities towards those instead of following the path of green transition. At the same time, metropolitan regions may be better equipped to face the changes of the green transition, with the less developed regions |

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| | falling behind (Rodrigues-Pose & Bartalucci, 2023). |
| Digital transition | In less developed regions there is an increased likelihood of leapfrogging (see argument under green transition above) related to increased innovation though cluster dynamics. Increased funding for targeted regions could have a positive effect on innovation, propelling these regions into more advanced and green technologies. While less likely in the short-term, the impact would be high over the long-term (as digital transition is connected to education and capacity, which builds up in longer periods of time than some other transition phenomena). Nevertheless, as mentioned above, the major transitions may create new disparities and challenges, despite the support and less developed regions are often more challenged in achieving the digital transition goals. Innovation may remain highly concentrated in capital and metropolitan regions, widening the digital divide (European Commission, 2022b). |

Looking at this scenario by type of region or member states, the table below provides an overview of benefits from Cohesion Policy financing and spill over effects and what that would imply for cohesion and the development of less developed, transition and more developed member states and regions, as well as regions facing development traps (see definition provided in Section 2.4 above).

Note:

Less developed regions: GDP per capita <75% of EU average
Less developed member states: (GDP per capita < 75% of EU average)
Regions in transition: GDP per capita 75-100% of EU average
Member states in transition: GDP per capita 75-100% of EU average
More developed regions: GDP per capita >100% of EU average
More developed member states: GDP per capita >100% of EU average

## Table 5.2 Cohesion Policy benefits by type of region

| | Less developed regions | Transition regions | More developed regions | Trapped regions | Resume |
|---|---|---|---|---|---|
| **Less developed member states** | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Policy learning | • Possibly economic spill over effects | • Possibly economic spill over effects | • Possibly economic spill over effects | • Cohesion may increase in less developed member states as less developed regions receive support, however development in their more developed regions may slow down without support<br>• Possibility for less developed member states to catch up |
| **Transition member states** | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Policy learning | • Possibly economic spill over effects | • Possibly economic spill over effects | • Possibly economic spill over effects<br>• | • Cohesion may increase in less transition member states as less developed regions receive support, however development in their more developed regions may slow down without support. |
| **More developed member states** | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Policy learning | • Possibly economic spill over effects | • Possibly economic spill over effects | • Possibly economic spill over effects | • Overall the risk is that more developed member states will see a slowdown in their development and increasing pockets of poverty |
| **Resume** | • Possibility for less developed regions to catch up due to financial and non-financial effects of Cohesion Policy | • Risk of transition regions falling behind as they only can benefit from spill over effects to boost their transitions<br>• High risk of transition regions being trapped in their development | • Risk for development in more developed regions to slow down and increase pockets of poverty as they only benefit from possible spill over effects | • Risk for trapped regions to stay trapped and increase pockets of poverty as they only benefit from possible spill over effects | |

Source: own elaboration

## 5.3 Cohesion Policy only for less developed member states (GDP per capita < 75% of EU average) – A scenario

This scenario focuses on Cohesion Policy support dedicated only to the less developed member states. Map 5.2 shows these territories. With support focusing on these member states, Cohesion Policy funding in less developed regions (GDP per capita < 75% of EU average) in member states such as France, Italy and Spain would discontinue.

| **Cohesion Policy only for less developed member states (GDP per capita < 75% of EU average) – A scenario** | |
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| **Assumptions** | The scenario has been developed with a number of assumptions. These include<br><br>• Cohesion Policy support is dedicated to member states rather than regions. The driving force is concentrating limited resources, channelling attention towards less developed member states (GDP per capita < 75% of EU average) and thus changing the delivery mechanism of Cohesion Policy by relying strongly on the subsidiary principle.<br><br>• The Single Market continues its operation with no changes, while the green and digital transitions are key priorities of the EU.<br><br>• European Territorial Cooperation continues in this framework, with support dedicated to less developed member states (GDP per capita < 75% of EU average) |
| Eligible areas and rationale | In this scenario, eligible areas are less developed member states. This covers Portugal, Greece, Croatia and all member states in Eastern and Central Europe, as well as the Baltic States (see Map 5.1 and Map 5.2).<br><br>As less developed member states (GDP per capita < 75% of EU average) largely concern Southern, Eastern and Central European regions, it is important to note that for Cohesion Policy, this may lead into directing efforts towards major cities and growth centres (as they are usually |

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| | the nationally preferred support targets), which can catalyse substantial economic development and growth there. Certain regions, such as less developed regions (GDP per capita < 75% of EU average) may be further left behind, given limited support and the focus on growth. |
| **Possible implications for:** | |
| Economic cohesion between member states | Overall, the economic gap between more (GDP per capita > 100% of EU average) and less developed member states (GDP per capita < 75% of EU average) may gradually narrow. However, advanced member states might experience slower growth, given reduced funds from Cohesion Policy. They may however seek other funds or make better use of national support (which in turn will increase Euroscepticism in those member states drastically).[26]<br><br>In addition, there may be a renewed emphasis on cities and growth centres at the national level of less developed member states (GDP per capita < 75% of EU average), as those are the types of territories absorbing the then substantial support the easiest and quickest due to the fact of providing critical masses (of means of production, education and training, workforce), which could be an economic boost for these member states overall (following the regional development principle of “a rising tide will raise all boats”). These places might become attractive poles for external or EU-based investments, contributing to the economic health of the nation. This may possibly lead to competition between member states to become investment hubs.<br><br>Furthermore, changes to Cohesion Policy under this scenario might support member states that struggle, especially in the light of new enlargements. Cohesion Policy only for less developed member states (GDP per capita < 75% of EU average) would enable them to keep up with growth in the others. However, it might risk creating |

26 as spill-over effects derived from supporting the less developed countries are not as easily visualised for the own population as direct support effects.

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| | rivalries between member states as to who is eligible for funding and what defines a less developed country. |
| Economic cohesion between regions (within member states and across the EU) | However, the other side of this coin paints a potentially dire picture for less developed (GDP per capita <75% of EU average) and transition regions (GDP per capita 75-100% of EU average) located outside less developed member states (GDP per capita < 75% of EU average), since they would be deprived from direct Cohesion Policy support. Their neglect might intensify disparities, particularly in less developed regions (GDP per capita < 75% of EU average) outside the less developed countries (e.g. the South of Italy). This will be especially intense in some regions, exacerbating inequalities within member states (e.g. Italy and Germany). |
| Social cohesion between member states | These shifts could have significant political implications, risking the broader acceptance of cohesion within society. The ideal of the EU being inclusive for all regions and citizens might be at stake. The ripple effects of evolving inequalities and unrest could transcend regions and member states, potentially permeating the entire EU framework. This scenario envisions a multifaceted trajectory with intertwined consequences at various levels. While some dynamics would spur economic growth and development (in specific regions within the less developed member states), others might inadvertently stir up friction and competition (in those regions being cut-off from Cohesion Policy support), challenging the very cohesion the EU seeks to uphold. |
| Social cohesion between regions (within member states and across the EU) | Social disparities may emerge, especially within member states if national authorities decide not to specifically support less developed regions (GDP per capita < 75% of EU average) (e.g. the East of Poland or Hungary, the rural areas of Romania and Bulgaria) but decide to concentrate all support to urban areas (e.g. the capital areas like Budapest, Sofia or Bucharest). In such cases, nation states must now assume a critical role. They need to counterbalance these inequalities with social programmes and systems that support all regions and their people. There |

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| | will be additional burdens on the national budget to address the deficiencies. |
| Territorial cohesion between member states | With Cohesion Policy only being directed to less developed member states, they may experience higher growth. They benefit in the medium-term from investments that enable them to develop. Focusing on member states instead of regions leads to economic boosts (however with the risk that the support is strongly territorially concentrated), especially if resources are directed towards major cities and growth centres that can drive substantial economic development. The effect is medium-term, as urban agglomerations can quickly reap the benefits of increased national level investments (due to the agglomeration benefits they offer – see argument under "economic cohesion" above). These places could also become attractive poles for external and EU-based investments beyond Cohesion Policy, contributing to the overall economy of all member states. |
| Territorial cohesion between regions (within member states and across the EU) | As the digital transition progresses, the dynamics that are responsible for increasing the digital divide (i.e. lack of connectivity, lack of investment in digital solution, low digitalisation of private and public sector and the impact of AI) could persist. Members states not benefiting from Cohesion Policy would need to independently invest national resources in their regions and in similar priorities to address these dynamics to improve territorial cohesion.<br><br>To some extent economic spill over effects of Cohesion Policy investments in less developed member states (GDP per capita < 75% of EU average) may benefit economic operators in other member states.<br><br>However, less developed regions (GDP per capita < 75% of EU average) within more developed member states (with a GDP per capita > 100% of EU average) might find themselves particularly vulnerable. Their prospects hinge on priorities set at the national level. The disparity could culminate in social unrest. As for the transition regions in those member states – they would suffer the risk of falling back to the "less developed" status unless national/ regional |

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| | support could buffer the lack of Cohesion Policy funding. The transition regions may however be an interesting show case: if certain of those regions have already reached a development level allowing them to enter and compete on wider European or even global markets (i.e. if they have passed the "valley of death" in investment and innovation terms), then the lack of Cohesion Policy support can be compensated by their strong economic performance.<br><br>Less developed regions (GDP per capita < 75% of EU average) in more developed member states (with a GDP per capita > 100% of EU average) might become vulnerable, depending on national priorities. There are several such member states, as seen in Map 5.1. This could lead to social unrest and tensions, accentuated because excluding the regional level might intensify disparities. Certain regions, particularly within less developed member states (GDP per capita < 75% of EU average), will be left behind. Again, transition regions in these member states may either fall back to the less developed status or reach a development level, where compensating the support loss through endogenous economic development will be possible. With respect to cohesion, it will be more likely for those regions to turn their back to the general idea and attitude of EU solidarity and follow a strongly competitive and market-oriented approach instead.<br><br>If only less developed member states (GDP per capita < 75% of EU average) receive Cohesion Policy an increased urban – non urban divide may be observed, widening disparities between different types of regions. |
| European Territorial Cooperation | European Territorial Cooperation will be influenced by this shift in funding. In this scenario, the national level would decide which regions receive funding for territorial cooperation. This risks cross-border regions or less developed regions (GDP per capita < 75% of EU average) may not being prioritised for cooperation funding. There is a possibility that cooperation between urban areas may prevail. Given this possible shift of territorial focus, maybe |

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| | the priorities of territorial cooperation also shift to dedicated needs of EU growth poles. |
| **Single Market (four freedoms) and economic prosperity** | Although the Single Market will continue its operation, it is affected by the possible changes of this scenario.<br><br>Firstly, competition may be distorted as some businesses in regions with enhanced support have a competitive advantage over those not receiving support. This may lead to market imbalances.<br><br>In addition, investments may be directed to places with growth potential in less developed member states (GDP per capita < 75% of EU average). This may lead to increased inequalities within member states.<br><br>Further development of the social economy through the Single Market may be necessary to support players and regions with concrete actions thus preventing market distortions through imperfect competition (cost function distortions, negative externalities not accounted for etc.) (European Commission, 2023c). |
| Green transition | The green transition remains a key priority for the EU. Nevertheless, targeted funding to less developed member states (GDP per capita < 75% of EU average) may result in uneven green development, as progress may vary significantly between member states receiving versus those not receiving support. Furthermore, less developed regions (GDP per capita < 75% of EU average) in developed member states may experience a backlash in their green transition process and revert back to non-environmentally friendly industries to keep up with growth competition. This holds especially true for those regions in more developed member states which are going under a difficult process of restructuring their "traditional industries " (cars, steel and aluminium, chemicals etc.). The green transition may be more challenging for regions lagging behind (in both types of member states – the less developed and developed ones), as they could be further left behind by both the climate change effects and the measures to deal with it. More consultation with local communities may be needed, in order to take these views into account to mitigate |

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| | any negative externalities (Rodrigues-Pose & Bartalucci, 2023). |
| Digital transition | Similarly, digital transition remains a key EU priority, however, changes in this scenario may affect this process. The digital divide may be amplified, particularly for less developed regions (GDP per capita < 75% of EU average) or regions not receiving Cohesion Policy support. Digital opportunities may be reduced, and investments may be prioritised to territories that have greater potential. A lot will depend on national level support for all regions / territories for the digital transition. Besides this, education and digital skills play a key role. Regions with large cities have a better educated labour force (European Commission, 2022b). Continuous training and education are important to alleviate any negative effects, mitigate the risks and support employment (European Commission, 2022b). |

Looking at this scenario by type of region or member state, the table below provides an overview of benefits from Cohesion Policy financing and spill over effects and what that would imply for cohesion and the development of less developed, transition and more developed member states and regions, as well as regions facing development traps (see definition provided in Section 2.4 above).

Note:

Less developed regions: GDP per capita <75% of EU average
Less developed member states: (GDP per capita < 75% of EU average)
Regions in transition: GDP per capita 75-100% of EU average
Member states in transition: GDP per capita 75-100% of EU average
More developed regions: GDP per capita >100% of EU average
More developed member states: GDP per capita >100% of EU average

## Table 5.3 Cohesion Policy benefits by type of region

| | Less developed regions | Transition regions | More developed regions | Trapped regions | Summary |
|---|---|---|---|---|---|
| **Less developed member states** | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Possibly economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Possibly economic spill over effects<br>• Policy learning | • Cohesion Policy investments<br>• Non-economic spill over effects<br>• Policy learning | • Less developed member states catch up<br>• Risk that, in particular, transition and more developed regions in less developed member states benefit as funding will concentrate on the most promising investment areas |
| **Transition member states** | • Possibly economic spill over effects | • Possibly economic spill over effects | • Possibly economic spill over effects | • Possibly economic spill over effects | • Transition member states risk a slower transition and lose momentum |
| **More developed member states** | • Possibly economic spill over effects | • Possibly economic spill over effects | • Possibly economic spill over effects | • Possibly economic spill over effects | • More developed member states see some slowdown in their development and increasing pockets of poverty |
| **Summary** | • Less developed regions in transition and developed member states fall behind | • Transition regions in transition and more developed member states risk slowing down or losing momentum for their transition, falling behind and facing development traps | • Developed regions in transition and more developed member states risk slowing down and falling behind | • Trapped regions in transition and more developed member states risk staying trapped and falling behind | |

Source: own elaboration

## 5.4 Concluding reflections on the three scenarios

The scenarios in this chapter offer possible and plausible pathways for the future of Cohesion Policy and the Single Market. They aim to offer inspiration and thinking out-of-the-box, providing background for informed decision making in the future. They do not aim to offer accurate predictions about the future, but rather explore a few paths for Cohesion Policy and the Single Market.

The three scenarios look into different futures. The first looks into **Cohesion Policy for all regions**, the second **only for less developed regions GDP per capita <75% of EU average** and the third for **less developed member states GDP per capita <75% of EU average**. Despite the available funding economic inequalities may persist, as not all regions prosper the same way (European Commission, 2022b), especially regarding regions needing additional resources and investments to bridge developmental gaps and disparities. The funding required to address these challenges go far beyond Cohesion Policy and need a concerted effort of other EU policies and national efforts. It should however be underlined that reducing the Cohesion Policy funding (as put forward by the Commission in two of the three scenarios presented in 2018) would have a negative effect for allowing all regions to reap the benefits of the Single Market and the positive spill over effects described in this study.

This does not exclude the need to increase the effectiveness of Cohesion Policy by putting more focus on spill over effects, policy innovation and learning, and capacity building. The challenge of increased social and territorial disparities would also likely continue, despite the support (European Commission, 2022b). Furthermore, regional convergence may take time, becoming even more challenging with a potential future EU enlargement. Nevertheless, the Single Market would continue without distortions, with some member states benefitting more than others.

Cohesion Policy exclusively for less developed regions (GDP per capita <75% of EU average) may optimise resource allocation for those in most need, however it may cause opposition from regions that do not receive support. This could result in inequalities within member states and regions, further impacting internal coherence and the functioning of the EU. The Single Market may be enhanced, as less developed regions (GDP per capita <75% of EU average) will be strengthened, but there may also be frictions and enhanced competition between more advanced regions (GDP per capita >100% of EU average).

Lastly, Cohesion Policy only for less developed member states (GDP per capita <75% of EU average) may support growth in the member state as a whole, but it may increase intra-state disparities if funding is directed to high growth regions. Territorial cohesion may see a mixed picture, as some territories can reap the benefits of support more than others. The Single Market may be challenged, as intra-state disparities may not allow the four freedoms to operate fully.

**Table 5.4 Scenario implications for Cohesion Policy and the Single Market**

| Scenario | Economic Cohesion | Social Cohesion | Territorial Cohesion | Single Market |
|---|---|---|---|---|
| **Cohesion Policy for all regions** | - Inter- and intra- regional economic balance.<br>- Equal opportunities for all EU regions to develop.<br>- Possibly less impact in regions with pressing needs | - Priority support for socially disadvantaged groups.<br>- Cohesion Policy counterbalances inequalities and pressures of the Single Market. | - More attention to regions with specific needs.<br>- Strong cooperation between member states. | - Single Market operates as usual, with established market conditions and freedoms.<br>- Regional advantages may be downplayed. |
| **Cohesion Policy for less developed regions** (GDP per capita <75% of EU average) | - More targeted projects and priorities, to bridge the development gap.<br>- Challenging for other regions with less benefits to develop potential or address development traps.<br>- Increasing challenges with any a future enlargement. | - Strong capacity building for these regions to cope with the developments.<br>- Projects and priorities to support social integration and inclusion.<br>- Risk of more pockets of poverty in transition and more developed regions. | - Support in regions left behind, greater connectivity and synergies.<br>- Possibly stronger cross-border cooperation. | - Possible uneven development, as market conditions may differ across regions. |
| **Cohesion Policy for less developed member states** (GDP per capita <75% of EU average) | - Enhanced national competitive, trade and economic power.<br>- More disparities within member states – both those receiving and not-receiving funding.<br>- Increasing challenges with future enlargement. | - Social inclusion support relies on the national level for more advanced regions.<br>- More relief in member states receiving support.<br>- Risk of more pockets of poverty in transition and more developed member states. | - Largely national priorities in focus.<br>- Risk of more competition between member states for support allocation.<br>- Territorial specificities may be overlooked. | - Increased regional disparities, priorities given to more developed regions in each member state. |

Source: own elaboration

The scenarios are distinct, with diverse implications for economic, social and territorial cohesion, as well as for the Single Market. A summary of the effects is presented in Table 5.4.

The three scenarios highlight that economic, social and territorial disparities may remain even with Cohesion Policy support. As substantially underlined in the 8th cohesion report, Investments in skills, infrastructure, innovation, etc. have contributed to convergence. However, gaps still remain and most drivers for growth continue being concentrated in urban regions and the most developed territories (European Commission, 2022b). Uneven economic growth and prosperity may be seen in different ways across the scenarios. These can be within or across member states and may change the balance across territories. Furthermore, social inequalities may persist in the absence of cohesion in some regions or member states, worsening living standards, access to services and the well-being of citizens across EU regions. Such social inequalities may trigger Euroscepticism further challenging the European project and its values. In addition, the lack of cohesion funding in some regions may affect governance, increasing discontent and a lack of trust among EU citizens. This could result in instability, challenging the unity of the EU. All these will affect the global position and power of the EU, as well as making the green and digital transitions in the EU more difficult.

Some EU regions are experiencing strong growth and rapidly catching up over time, e.g. eastern EU member states, while others fail to achieve similar high growth rates, e.g. southern regions of the EU or other regions in more developed north western member states. This stagnation in economic development has resulted in so-called development traps, which have come along independently from Cohesion Policy support, but Cohesion Policy has not managed to address them effectively (European Commission, 2022b; Rodriguez-Pose et al., 2023). Regions caught in development traps have not managed to catch up and converge with higher growth regions, despite support. In most cases, development trapped regions may be found in less developed member states of Southern Europe, but they are also visible in more developed north-western member states. Even regions in transition (GDP per capita 75-100% of EU average), may have fallen into a development trap and be in need of support, as is the case for regions in – for example - France and Italy. At the same time, even if Cohesion Policy support is dedicated only to less developed regions or member states, it does not reduce or eliminate disparities. On the contrary, they are further enhanced. Hence, it becomes clear that Cohesion Policy support is necessary for all regions.

Furthermore, the scenarios also imply that Cohesion Policy remains affected by current trends and developments. Beyond the COVID-19 pandemic effects and current geopolitical challenges, the green and digital transition priorities may bring new growth opportunities for EU regions but may also create regional disparities. As regards the green transition, the social impact of the transition may differ between regions and be higher in poorer or less developed regions. Similarly, the digital transition may affect regions with poor digital accessibility, low digital skills and poor infrastructure (European Commission, 2022b). Further challenges, such as demographic change, particularly ageing, may have severe consequences on Cohesion Policy funding, as well as the EU budget in general. As a result, it becomes clear that Cohesion Policy is affected by other global and EU trends and needs to be flexible, adjustable and resilient in the future.

European Territorial Cooperation, i.e. transnational, cross-border and interregional cooperation plays a key role in all three scenarios, with different implications in each. In the scenario of Cohesion Policy for all regions, projects may need to be more targeted and strategic, possibly prioritising regions with the greatest impact, increasing competition between regions. In the scenario where Cohesion Policy support is dedicated to less developed regions (GDP per capita < 75% of EU average), cooperation may increase growth in these territories and enhance their potential, increasing knowledge, expertise, capacities and cooperation networks among regions. Lastly, in the scenario where Cohesion Policy support is given to less developed member states (GDP per capita < 75% of EU average), territorial cooperation will be largely dependent on the national level to decide which regions will be given support. This risks less developed regions within less developed member states not being prioritised for funding, as they are not key growth poles, increasing disparities between regions within member states. Territorial cooperation is key for growth and development and for the effective functioning of the Single Market. Territorial cooperation through its synergies and optimised resource allocation of funding can enhance economic integration, with regions pooling resources for common objectives and hence achieving more. Cooperation may also bring increasing knowledge transfer across regions, strengthening resilience and synergies. Through cooperation, sustainable development is strengthened, as is social and economic cohesion. As a result, a more integrated and competitive EU is created, which by default also enhances the Single Market's effectiveness.

These different directions from the three scenarios highlight the importance of territorial cooperation for the growth and development of regions. Even though the Single Market supported, European funding and EU enlargements so far have contributed to cross-border integration, there is still room for improvement. This imperfect integration may become costly, as the full potential of cooperation is untapped (Böhm, 2023). Hence, more mutual trust, less administrative barriers and more capacity building are necessary. In addition, instead of focusing cooperation on those players or regions with comparative advantages, which may result in competition between regions, expanding cooperation towards the private sector and beyond national borders will enhance knowledge creation, exchanges and unlock further potential (Boschma, 2023).

# 6 Conclusions and recommendations

This report has looked into the evolution and relationship of Cohesion Policy and the Single Market over time. The two have been inextricably connected for years, with one influencing the other. The following sections summarise key messages of the report and provide recommendations for the future.

Cohesion Policy has helped to some extent to reduce disparities (primarily economic ones) (European Commission, 2022b). Through its interventions, Cohesion Policy has improved access to the Single Market and enhanced market efficiency within the EU.

Cohesion Policy and the Single Market have evolved, adapting to changing circumstances while aiming to achieve regional, as well as economic and social cohesion within the EU. The Single Market aimed to lift technical, legal and administrative barriers, while Cohesion Policy focused on addressing economic and social disparities within the EU, striving for economic, social and territorial cohesion. Over the years, Cohesion Policy has responded to shifting dynamics, adapting its priorities and spatial coverage to meet the evolving needs of a diverse EU landscape (see Chapter 2).

Cohesion Policy not only supports the Single Market's expansion but also addresses disparities arising from it. Moreover, Cohesion Policy adapts to changing policy and the evolution of overarching EU objectives, directing investments and policy learning accordingly. Through a wide range of thematic objectives, targeted thematic concentration and enabling conditions, Cohesion Policy has reduced and continues to aim at reducing regional disparities, promotes economic integration and elevates competition (see Chapters 2 and 3).

Understanding the broader indirect benefits of Cohesion Policy is important. Cohesion Policy spending creates economic and non-economic spill overs. Economic spill overs include the ripple effects of economic growth, trade relationships, technological advances and reallocated production factors among regions and countries. These spill overs create positive economic effects by stimulating demand and catalysing innovation. Beyond economic domains, there are non-economic spill over effects, including policy innovation, learning beyond Cohesion Policy, balance, justice, cooperation, solidarity, and governance (see Chapter 4).

With an outlook to the future, the three scenarios presented in the report, looking at i) Cohesion Policy for all regions, Cohesion Policy only for less developed regions, and iii) Cohesion Policy only for less developed member states, show that disparities may risk to remain under the different scenario assumptions (implying the other Cohesion Policy designs would have to be discussed).

The findings, scenarios and conclusions of this study point out to the following policy recommendations:

➔ **Keep all regions eligible for Cohesion Policy** as limiting eligibility only to some regions may increase disparities. Making Cohesion Policy only available to less developed regions or member states could increase its impact in these supported areas, as has been shown in the scenarios (see Chapter 5). To ensure Cohesion Policy supports economic dynamism in the EU and contributes to overarching EU objectives, it should continue to support all regions with place-based measures. This will include:

- **keeping all regions eligible** for Cohesion Policy support since limiting support to certain types of regions or member states is likely to increase disparities in the long run;

- **considering the geographical scale of eligibility**, i.e. at what level to target interventions, as over the past 30 years eligibility was defined at different geographical levels and recent research indicates that NUTS2 does not suit targeted policy approaches (Rodriguez-Pose et al., 2023);

➔ **Strengthen the Single Market and Cohesion Policy** to help Europe's future prosperity, competitiveness and social peace, especially during major transitions such as the green and digital transitions, or geopolitical changes. This will include:

- **developing a shared vision of the EU and its economy** which can guide transitions and ensure broad social consensus on the processes and need for further (economic) integration of the EU;

- **daring to provide bold direction** as times of radical change and disruptions also require strong leadership; and

- **acknowledging that economic, social and territorial cohesion are essential values and objectives for future** 'togetherness' and prosperity of the EU, but also that it needs to go beyond just Cohesion Policy – i.e. other policies need to ensure they not only 'do no harm to cohesion' but actively contribute to it within their own objectives.

➔ **Think beyond Cohesion Policy to support cohesion as a value.** The cohesion objective laid down in Article 3 of the TEU is too big a task for a single policy. As shown earlier, the annual gains from the single market are about EUR 1 000 – 2 000 higher in the economically strongest member states than in the weakest, in terms of GDP per capita. At the same time, annual per capita support through Cohesion Policy is about EUR 200 higher in the economically weakest member states compared to the strongest ones, in terms of GDP per capita. This makes catching up a challenging task, so other EU and national policies will need to contribute. This could include:

- **pushing for cohesion as an underlying value of all policies**, to ensure they all consider how they can contribute to the overarching cohesion objective while pursuing their specific objectives (European Committee of the Regions et al., 2021). This should go hand-in-hand with the 'do no harm to cohesion' principle (European Commission, 2022b);

- **strengthening synergies and complementarities between EU policies** to make cohesion efforts more effective. Intensifying territorial impact assessments of policies could increase the awareness of cohesion effects in various EU and national policies.

➔ **Better use of Cohesion Policy spill over effects** can also contribute to the cohesion objective. Cohesion Policy has economic spill over effects beyond the direct **effects** of the investment. Furthermore, its implementation also has non-economic spill overs which help improve governance and learning in public administrations. These benefits spread across national and regional administrations and the effects should be used better. This includes:

- **increasing understanding of the spill over effects** and how positive effects can be strengthened through targeted measures;

- **further supporting multi-level governance by encouraging knowledge sharing and mutual learning** across public administrations and borders**.**

➔ **Place-based knowledge and stakeholder involvement to remain** as important anchors of Cohesion Policy. Targeted investments to support development, overcome development traps and help lagging places require place-based knowledge and stakeholder involvement. Arguments for involving local and regional players often go together with calls for more flexibility (including a new balance between flexibility and long-term objectives), tailor-made solutions and emphasis on the subsidiarity principle (Böhme, Marinović, Zillmer, Hat, & Schuh, 2023). In other words, the more local and regional stakeholders are involved, the more programmes fit their needs. Given the diversity, this requires for more flexibility, including:

- **maintaining the shared management approach** of Cohesion Policy despite many other EU policies increasingly focusing on direct management;

- **strengthening the partnership principle** and code of conduct with increasingly centralised delivery mechanisms for Cohesion Policy; and

- **ensuring the subsidiarity and proportionality principles** are central to Cohesion Policy even in the future.

➔ **Adjust to changing circumstances**. In general, the spatial and social dynamics of technological and economic transitions increase disparities in the short-term, before converging in the long run. The network effects of technological 'revolutions' often lead to economic and spatial concentration on innovative places. Only later does diffusion bring convergence between players and places. This brings a particular challenge to the Single Market and Cohesion Policy tandem. While the Single Market needs to push for technological and economic transitions, Cohesion Policy needs to cushion counter effects of these transitions and shorten the delay with which transitions lead to territorially equally distributed effects. This includes:

- **continuing to spur the green and digital transitions** as drivers for growth. These will adjust the Single Market and Cohesion Policy should support leading technologies and cushion non-cohesive effects;

- **cooperating on EU industrial policies,** to ensure global competitiveness and access to 'essential products'. This will require adjustments to the Single Market – some of which are already happening – but also adjustments in Cohesion Policy to accompany the changes by supporting key industries and cushion non-cohesive effects;

- **anticipating an aging society,** which will impact the labour force, change demands for products and services and increase public expenditure (e.g. on health care and pensions), to ensure implications for the Single Market and Cohesion Policy are addressed early; and

- **address geopolitical shifts** as their effect on global value and supply chains as well as export markets may require adjustments to the Single Market and affect where to offer Cohesion Policy support.

➔ **Monitor the benefits of Cohesion Policy and the Single Market with a standardised approach.** Currently there is no coherent, regular assessment or monitoring of the benefits of either Cohesion Policy or the Single Market. In both cases, individual studies focus on particular time horizons and geographies using different methodologies. To improve the evidence-base for policy making and better inform the public about the benefits, a standardised approach to regular monitoring is needed at EU level. This includes:

- **developing a methodology** which can properly capture the regional benefits of policies, including spill over effects (both economic and policy learning), that can be applied EU-wide to the Single Market and Cohesion Policy;

- **conducting regular assessments** of the benefits, following this methodology and making the results publicly available in a transparent and unbiased way; and

- **considering changes to policies** to further improve their benefits for European citizens and places.

As the EU shapes its future, questions emerge about the kind of union it aspires to be. Choices made by policymakers, cooperation between member states and the readiness to relinquish certain national prerogatives will define the path the EU takes. In this context, Cohesion Policy's role is a potent vehicle to foster solidarity, cooperation and socio-economic balance within the ever-changing European landscape.

The evolution of the Single Market and Cohesion Policy shows they have the power and capacity to adapt to change. Even so, in an ever-changing global environment with strong interdependencies, where changes in one place may strongly influence another, taking a thoughtful look towards the future is necessary.

Economic, geopolitical, environmental, social, demographic and technological trends will decisively influence the future development of the two. These trends pose challenges and require changes to get out of the comfort zone and 'business as usual' of the two. Looking into the future reveals outlooks that can be sustainable and resilient to external shocks. In such a constantly changing environment, both the Single Market and Cohesion Policy need to be prepared.

Cohesion Policy cannot shoulder the cohesion objective alone. For this, the EU needs more than policies, it needs a clear and shared vision of where it wants to go as well as what it wants to do and be. This vision should be a guiding beacon to help the EU navigate the uncertainty of the future, with a defined purpose and values at its core. This should also allow for rethinking the duration of the multiannual financial framework, as a seven-year planning horizon does not correspond to the need of attentiveness and responsiveness in a quickly changing world of "permanent crisis". Instead, it should be a roadmap for the long term, true to EU citizen's shared aspirations and ideals.

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