Quo vadis, Cohesion Policy? European regional development at a crossroads

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Cohesion Policy seems to be on the backfoot: Given a raft of new policy priorities and tightening fiscal room to maneuver, a fundamental discussion on the relevance and future direction of Cohesion Policy is underway. In this Policy Paper, I give an overview of the debate on the future of Cohesion Policy with its various trade-offs.

Cohesion Policy has never faced such an intense and fundamental debate. In a time of war, trade rivalry, climate change, and digital transition, the relevance of Cohesion Policy is being questioned. Cohesion Policy, Europe's structural policy to improve economic, social and territorial conditions with long-term planning horizons of many years seems barely to have any place in a world where policymakers feel the need to react to crises swiftly. However, Cohesion Policy is relevant to most crises and problems Europe currently faces. Unlike many policies implemented at short notice – often with questionable designs and unclear results – Cohesion Policy aims to address the root causes of crises such as lack of competitiveness, inadequate infrastructure, or low institutional quality. In this sense, it is a set of preventive measures trying to make cities, regions and Europe as a whole resilient to future crises allowing them to act before any new crisis erupts. So why is the EU's longest serving investment instrument under so much pressure to justify its very existence?

What Cohesion Policy is about

To start with, it makes sense to take one step back and review the origins and today's state of play regarding Cohesion Policy. Understanding the current reform debate and the need for action requires an understanding of what Cohesion Policy was designed for.

Rooted in the Single Market

When Jacques Delors outlined his vision of the Single Market, he correctly predicted that economic efficiency would not benefit all regions of Europe equally (Jouen 2017). Thus, in 1993, Cohesion Policy was brought into being alongside the Single Market to ensure equitable participation in growth and prosperity across Europe. Its goal was to create a level playing field by addressing disparities in economic development, structures, and geographic conditions. This political ambition was clearly stated and uncontested in the EU treaties (Article 174 TFEU and Article 130d EC-Treaty).

At its core, Cohesion Policy tries to rebalance the mismatch between efficiency and equity within the Single Market. An efficient market potentially leads to a further concentration of economic activity in a handful of urban regions leaving behind many places on the periphery. Cohesion Policy thus seeks to counteract the concentration of benefits among a few actors and regions by ensuring broad and inclusive participation across all regions and people. In this sense, Cohesion Policy is the flip side of the Single Market: designed to avoid fragmentation with few centres of economic activity potentially creating adverse effects of broad acceptance, but also to ensure that it remains efficient by drawing upon and exploiting untapped potential throughout Europe.

Unlike its predecessor, the EU's regional policies which date back to 1957 and the Treaty of Rome, Cohesion Policy is not designed as a compensatory mechanism but as an instrument for empowerment. Its purpose is not to act as a 'solidarity tax' supplementing or even replacing member states' social policies, but rather to support regions in establishing equal opportunities for individuals and businesses.

Broadened scope of Cohesion Policy

In an increasingly integrated Europe, Cohesion Policy transcends mere economic equity within the Single Market to address social and territorial disparities. It encompasses investments in physical infrastructure, such as railways and roads, alongside those in education and skills development to bolster social cohesion. Ultimately, Cohesion Policy strives to foster comparable living standards for all Europeans, regardless of where they live and work.

Cohesion Policy has started to act as backup for other policies. For example, it now plays a pivotal role in delivering the Green Deal by ensuring a 'just' transition – one widely perceived as just – for regions affected in a range of different ways via the Just Transition Fund. For this, at least 30% of financial allocations under cohesion funding is dedicated to the green transition (European Parliament Research Service 2021). Moreover, in response to geopolitical challenges such as the Russian invasion of Ukraine, Cohesion Policy has been drawn upon to ensure affordable energy prices and support refugee integration, underscoring its relevance in navigating a turbulent and rapidly changing global landscape.

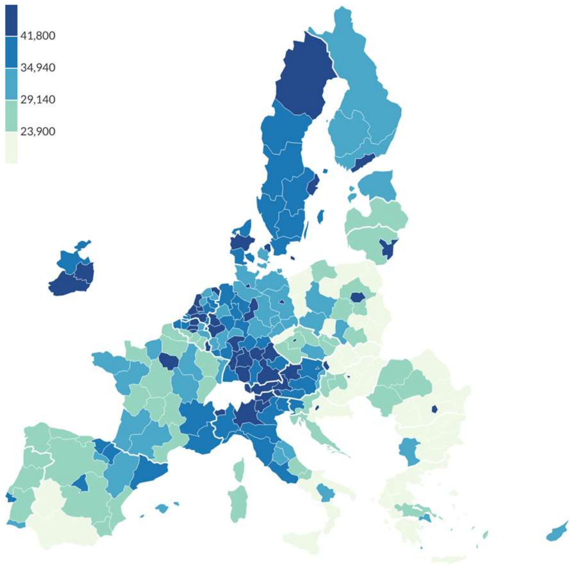
Cohesion Policy is labelled "the glue that binds all Europeans together" (Rodríguez-Pose 2024). And, indeed, it is the prospect of upward convergence in prosperity terms of people and regions created by the Single Market and Cohesion Policy that makes the European project so attractive. This success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

Less inequality – but still work to do

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

Overall, disparities across Europe have been eroded – but have not vanished entirely. Regions in Southern Europe in particular have gained little and even experienced stagnation lately. Hence, there is still considerable scope for improving cohesion by further reducing the gap between regions.

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



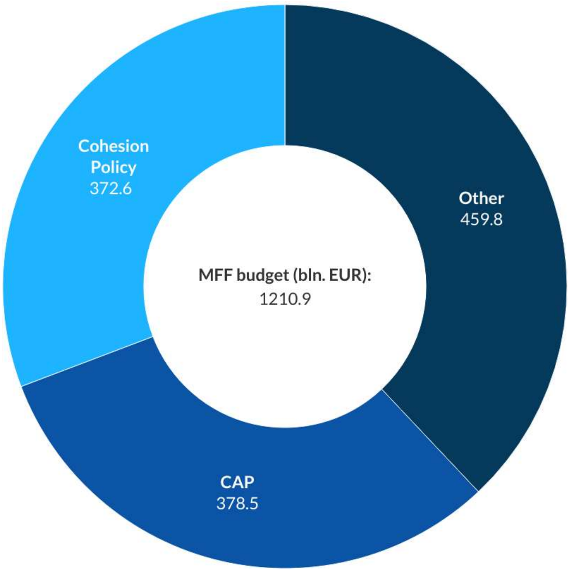
Note: GDP per capita in 2022 (measured in PPP). Source: Eurostat (2024), own illustration.

More than financial redistribution

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

Most cohesion funding is financed from the EU budget. The EU puts a strong emphasis in financial terms on Cohesion Policy:
Of 1211 billion EUR planned for the current multiannual financial framework (MFF), the EU budget covering 7 years, 372.6 billion EUR are devoted to it (see Figure 2). This ranks Cohesion Policy second in EU expenditure areas of the EU after the Common Agricultural Policy (CAP).

Figure 2: Cohesion Policy makes up the second-largest share in EU spending



Note: All values in billion EUR. Budget in 2020 prices.
Source: European Commission (2021), own illustration.

Beyond investing in regions, Cohesion Policy is also about developing regional strategies bottom-up to empower local actors and about facilitating inter-regional cooperation on knowledge-exchange. This aims to set the scene for individual place-based regional developments.

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

Fostering cooperation between different regions is crucial for European integration and maximizing European value-added. The Interreg program is a prime example of this effort, connecting regions across national borders throughout Europe. Interreg facilitates collaborations, knowledge exchange, and economic development with relatively modest funding, representing around 3% of the Cohesion Policy budget only (Letta 2024).

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

What the current debate is about

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

- The Mission of Cohesion Policy
- Financing and Economics
- Optimal Policy Design, especially in the light of the Recovery and Resilience Facility (RRF)
- Synergies with other policies

Current state of the debate

The discussions officially got underway with the establishment of the High-Level Group on the future of Cohesion Policy by DG REGIO Commissioner Elisa Ferreira. Throughout 2023, this group engaged with various stakeholders in monthly exchanges in Brussels. In February 2024, their final report was released (European Commission 2024a), shortly before the Cohesion Report on the state of economic, social and territorial cohesion in Europe (European Commission 2024b). Departing from the triannual cycle, the 9th Cohesion Report was released just two years after the 8th edition.

Cohesion Policy and the 7-year EU budget

As one of the largest components of EU spending, Cohesion Policy will be a prime concern in the debate on the next Multiannual Financial Framework (MFF). With the mid-term evaluation for the ongoing period 2021-2027 (European Council 2024) in play, the debate and planning for the next period have already started and are expected to intensify in 2025 and beyond. Cohesion Policy, considered as the redistributive component of EU finance, positions member states as net-beneficiaries (mainly in the East and South) and net-contributors (mainly in the West and North), each with corresponding interests in budget negotiations.

Quest for Cohesion Policy's mission

Cohesion Policy is set up to achieve various goals: assisting lagging regions in catching up, especially after EU accession, helping others maintain their progress in a time of transition, compensating regions, fostering solidarity especially during crises, and a lot more. Over time, the objectives of Cohesion Policy have evolved (Idczak et al. 2024). Recently, security has been added to the discussion mix to acknowledge the rise in importance of Europe's geopolitical dimension (Hunter 2024). In sum, Cohesion Policy needs to navigate through multiple tradeoffs.

Multitool vs. precision tool

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

Too many objectives dilute the effectiveness of pursuing individual goals and creates a perception of limited overall progress. Therefore, it is crucial to prioritize and clarify the primary objectives of Cohesion Policy. Equally important is to define what Cohesion Policy is not (primarily) about. This consolidation would better align Cohesion Policy to the toolbox of European policies and facilitate clearer communication on its purpose to the public.

Consolidating the objectives of Cohesion Policy is necessary to put the focus on its actual goal: Reducing social, economic, and territorial disparities across Europe. When prioritizing objectives to pursue this goal, emphasis should be on those offering the highest European value added. Examples include fostering competitiveness, accompanying the digital transition or mitigating adverse effects of the green transition. A focused and consolidated set of objectives aligns Cohesion Policy with broader European policy goals and make its purpose more comprehensible.

Long-term vs. short-term perspective

Sustainable development of regions requires investments that take time to yield results. For instance, the benefits of new roads are only realized once they are built and people adapt to their presence by changing their travel habits or establishing new businesses along their route.

However, short-term policy interventions, such as those seen during the Covid-19 pandemic or the energy crisis following the Russian invasion of Ukraine, often take precedence. During these crises, the policy planning horizon shifted from years to mere weeks or even just days. Initiatives like CRII (Coronavirus Response Investment Initiative) and SAFE (Supporting AFfordable Energy), exemplify how Cohesion Policy adapted by redirecting funds to address immediate needs (European Commission 2021a, European Commission 2022).

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

Past vs. future orientation

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

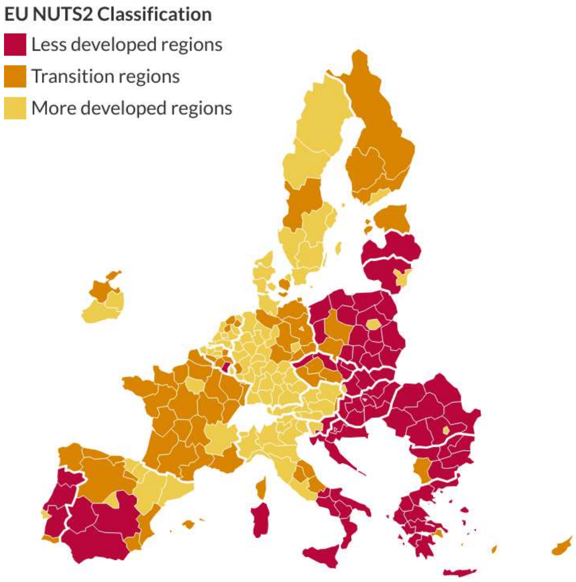
Cohesion Policy can also take on a proactive approach to prevent new disparities from emerging. This is particularly relevant for the green transition where the Just Transition Mechanism is accompanying but also extends to other transitions. Taking a forward-looking position, the principle of cohesion must be better adhered to in all sorts of policymaking so as to design policy that causes no significant harm to cohesion (Regulation (EU) 2021/1060). Instruments like the Territorial Impact Assessment (European Committee of the Regions 2023) would be one step towards ensuring cohesion-sensitive policymaking as stipulated by Article 175 TFEU, but is insufficient on its own, as such evaluations are typically conducted at the final stage of policymaking.

Preventing disparities from emerging is cheaper than surgical measures to combat them. This requires not only a different set of instruments but could also mean tailoring interventions to different regions. Different strategies and instruments for preventing and resolving disparities are the result. A successful Cohesion Policy must work on both mitigating or eradicating existing disparities and avoiding new ones.

All regions vs. few regions

Since 2007 all European regions are addressed by Cohesion Policy (Bachtler 2022). However, the focus is clearly on lagging regions, commonly defined by a low share of regional GDP compared to the EU-27 average (see Figure 3).

Figure 3: Cohesion Policy focusses most on Eastern and Southern European regions



Note: The figure illustrates the classification of regions mainly used for the allocation of ERDF and ESF+ funds, the largest cohesion budgets. Other funds differ.
Source: Commission Implementing Decision (EU) 2021/1130.

The current focus allows all European regions to participate in Cohesion Policy programs. While for richer regions the funding benefits are comparatively small, they can participate in the Interreg initiative, peer-learning activities and strategic planning schemes like Smart Specialization (S3).

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

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

Narrowing fiscal space and questions on effectiveness

Embedded in a changing world, Cohesion Policy competes with new policy priorities that also require funding. The Russian invasion of Ukraine and other conflicts in the neighbourhood call for higher investment in security and defence. Intensified global competition stokes demands for strengthening Europe's industry to keep up with the rest of the world. Accelerating climate change is creating substantial economic and social fallouts.

Competition for funding

The financial requirements to address all these contemporary challenges are enormous. For instance, if Europe is to become climate neutral, additional investments of 300-600 billion EUR *per year* are needed (Calipel et al. 2024, European Commission 2023). Even if it is impossible to finance this volume of investment completely from European (let alone national) budgets, policies for closing the investment gap will cost money that must be found.

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

Given the prospect of repaying the loans made for the RRF from 2028 (European Commission 2021b) – which will be approximately 30 billion EUR per year – overall fiscal room for manoeuvre is narrowing. Maintaining the status quo of EU budget will be a big challenge.

Overall, the current EU budget is relatively small. Annualized, it pretty well matches that of Austria, a small but wealthy member state with a population of 9 million. Considering the EU's challenges and financial demands on it to address them, this creates a fundamental dilemma going way beyond the discussion of Cohesion Policy funding.

With new political priorities and shrinking fiscal space on the horizon, competition for funding will be intensified. This requires either an expansion of the EU budget or political prioritization. If the latter, economic considerations such as the highest return on investment must be central.

Mixed results on effectiveness

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

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

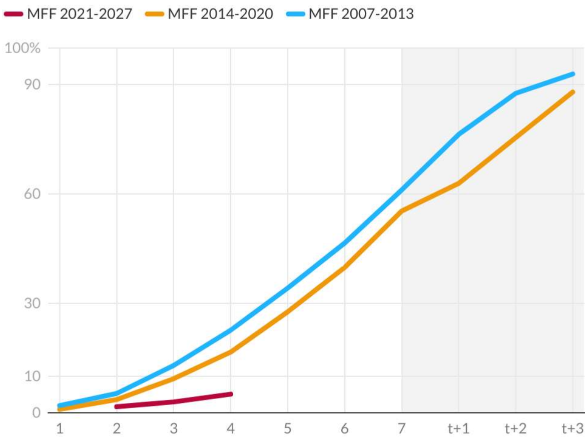
Attributing the observed upward convergence in Europe to Cohesion Policy is increasingly disputed. The findings of the academic literature on the economic effectiveness of Cohesion Policy are mixed, despite a generally positive tendency (European Policy and Research Centre 2014, Dall'Erba & Fang 2015). Variations in findings primarily stem from technical specifications and country-time-specific settings. Academic research confirms substantial heterogeneity in the impact of Cohesion Policy across member states (e.g. Crescenzi & Giua 2019).

Cohesion in Europe has improved since the advent of the Single Market. The exact contribution of Cohesion Policy to this development is hard to pin down. More research is needed to causally infer the effects of instruments employed under Cohesion Policy. This requires rigorous research using state-of-the-art research methods and better data with higher granularity linked to other sources such as firm information. Enhanced knowledge of the functioning and non-functioning mechanisms of Cohesion Policy is of utmost importance if we are to improve it.

Declining absorptive capacity

Cohesion Policy funds are so far planned within the MFF for seven years in advance (currently 2021–2027). Many regions struggle to spend the funds available to them consistently over time. Typically, the expenditure of allocated cohesion funds is lowest at the start of the budget cycle, as administrations need time to adapt to new regulations, develop projects, and manage residual funds from the previous cycle as Figure 4 shows.

Figure 4: Absorption Rate of Cohesion Policy is falling over time



Notes: Delayed start of current MFF period 2021-2027.
Source: European Commission Cohesion Open Data Platform, own illustration.

The absorption rate is declining from one cycle to the next. Strikingly, at the end of one programming period roughly 60% only of planned spending has taken place. It takes about three more years to approach 90%.

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

The least developed regions tend to exhibit the lowest absorption rates of cohesion funds (European Parliament 2013). These regions often show deficits in the quality of governance and institutional capacity. Addressing these shortcomings is crucial to ensure timely allocation of funds to regions in need.

The persistent low absorption rates, especially in least developed regions, reveal shortcomings in Cohesion Policy design. The EU, member states and regions must streamline administrative processes, focus more on capacity building and improve institutional quality to ensure that cohesion funding is put to the best effect.

Cohesion Policy design and lessons learnt from RRF

In the course of the Covid-19 pandemic, NextGenEU with the Recovery and Resilience Facility (RRF) at its core was introduced. Initially conceived as a short-term crisis instrument, the RRF turned out as a tool for structural development – aiming for similar objectives as Cohesion Policy (Cecchi 2023). Despite this genesis, the functioning and mechanisms of the RRF differ substantially making it a natural case to benchmark differences in design with that of Cohesion Policy (see, e.g., European Court of Auditors 2023a).

Bottom-up vs. top-down

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

The bottom-up approach based on multi-level-governance has proven effective in identifying regional pain points, leveraging crowd-intelligence, and fostering democratic participation with higher stakeholder buy-in. However, this extensive coordination requires time, making Cohesion Policy relatively slow to implement. In contrast, the RRF adopts a top-down approach ignoring multi-level-governance. Here programming is negotiated solely between the European Commission and member states, excluding regional and civil society voices (European Committee of the Regions 2024). This streamlined stakeholder involvement accelerates policy execution but raises questions on how well regional needs are met and whether the best strategies for local development are identified.

Cohesion Policy must improve its speed of implementation. However, it is crucial to find a balance between the ponderous, but inclusive bottom-up Cohesion Policy approach, and the agile, but less democratic RRF approach. This also affects the relationship between the different levels of government including information flows on the implementation of Cohesion Policy.

EU vs. national

Every EU member state operates its own redistribution mechanisms, which can range from formal fiscal equalization schemes to project-based approaches akin to Cohesion Policy. This raises the question: why should the European level replicate these national structures?

Given that the Single Market encompasses the entire EU, it is logical to address inequality and structural development on a pan-European scale and in a coordinated manner. Unlike national structural policies, Cohesion Policy can transcend member states' borders by linking regions across the continent and simply bypassing redundant structures. European competence enables regional connections to be made without requiring formal approval procedures from member states, so they can act as a form of grassroot European integration with broad social participation. A Cohesion Policy devolved to member states would render such cooperative efforts across borders more challenging, if not impossible.

Beyond economic considerations (see, e.g. Ragnitz 2018), this is also a matter of democracy and power dynamics. When regional development is exclusively managed by national governments, regions can be entirely at the mercy of their central authorities. The situation in Hungary, Slovakia or – previously – Poland exemplifies the potential adverse effects of such dependence, where regions and civil society may well suffer under centralized control.

The Single Market is inherently a policy of the European layer of governance. Thus, Cohesion Policy, its accompanying policy to prevent and overcome fragmentation, should operate on the same level playing field to be effective. Delegating regional development to member states changes the relationship between national and regional levels of power, raising not least concerns about how to mitigate democratic deficits.

No strings attached vs. conditionality

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

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

While there is a consensus on the need for reforms to create an environment conducive to the effective use of Cohesion funds (European Commission 2024a, European Commission 2024b), the challenge lies in implementing conditionality effectively. Ideally, conditions should be geared to the level of government responsible for the relevant changes, as suggested by Connexity Theory (Ragnitz 2018). However, Cohesion Policy primarily addresses regions, while European Semester conditions are usually directed at national governments, which hold the necessary competencies for systemic reforms such as pension or labour market overhauls. This misalignment results in only indirect pressure on regions, which is neither efficient nor democratic.

Another issue is how to implement output-based budgeting correctly. While there have been some attempts in Cohesion Policy, these failed to work effectively (European Court of Auditors 2021). Similarly, the RRF's approach falls short in its problematic selection of indicators to measure performance (Darvas et al. 2023, Policy Department for Budgetary Affairs 2024, European Court of Auditors 2023b). The focus is too much on inputs (disbursement of funds) instead of output and outcome (effects caused by the funds).

For 'development trapped' regions structural reforms at member state level is key to progress. However, as the primary targets of Cohesion Policy, regions often lack the authority to implement these necessary reforms. Consequently, conditionality can inadvertently place regions in a form of hostage to their national government's shortcomings, hindering access to the funds they need and changing the balance of power towards the national level.

Cohesion funds can only be effective in an environment with functioning institutions. Introducing conditionality can help establish such an environment, especially for stagnating lagging regions, allowing Cohesion Policy to reach its full potential. However, implementing conditionality may conflict with territoriality, as the competency for structural reforms according to the European Semester primarily lies at the member state level.

Simple vs. bulletproof

Cohesion Policy currently operates through six distinct funds (see Figure 5), each with several missions (some overlapping) and numerous regulations, administered and dispensed via dozens of instruments and hundreds of regional programs. These funds include:

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

This complexity and fragmentation imposes extensive burdens on strategic programming and advancement at EU level.

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

To fulfill the goals of each fund and ensure compliance in delivery countless regulations are in place. Joint delivery of Cohesion Policy via the partnership principle creates a system of checks-and-balances between the European Commission and member states. On top, regulations vary across member states for the same fund, often including national 'gold-plating' which adds extra regulation.

Figure 5: Overview of the 6 Cohesion Funds

Notes: Budget of funds in billion EUR for the current MFF period 2021-2027.
Source: European Parliamentary Research Service Fact Sheets, own compilation and illustration.

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

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

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

Leveraging synergies with other policies

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

EU policies

The European Union enacts numerous policies annually, all of which can impact cohesion. Whether regulatory or fiscal in nature, each policy action can enhance or diminish cohesion across Europe.

The prime example is found in Cohesion Policy's roots, the Single Market: Regulations designed for it may benefit some regions while adversely affecting others. For instance, improving the regulation for banking will affect financial centres more than others – with different effects.

Another example is the green transition that, with the shift to renewable energy at its core comes with a substantial overhaul of the economy. Phasing out fossil energy production will eradicate some economic activity, while phasing in renewable energy production will create jobs and value added. Schwab and Resende Carvalho (2023) show that this transformation favours lagging rural regions and is thus improving cohesion. By aligning Cohesion Policy with energy policy, the maximum impact of both can be achieved.

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

But not all policies benefit cohesion. For instance, the Horizon Europe research and innovation program prioritizes excellence, which often favours more developed regions. Also, stricter tax rules can disadvantage lagging regions that rely on being low tax areas.

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

National policies

Cohesion Policy is not the only instrument for structural development in Europe; most member states also implement their own policies with national scope. A prominent example is Germany's GRW (*Gemeinschafts-aufgabe ‚Verbesserung der regionalen Wirt-schaftsstruktur'*). However, these national policies are often imperfectly aligned with EU Cohesion Policy – or vice-versa.

Fiscal equalization schemes also play a cru-cial role in promoting equity. Despite their formalized nature, which considers various factors hindering regions and municipalities from reaching their full potential, these schemes fail to serve proactive tools for structural development. Instead, they func-tion as compensation mechanisms, akin to a 'solidarity tax'.

Improved coordination between national and EU policies, alongside effective use of fiscal equalization, can significantly enhance struc-tural development and cohesion in Europe. Combining resources can boost financial lev-erage and ease administrative burdens.

Outlook

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

Cohesion Policy is Relevant for Mastering Global Challenges

At first glance, Cohesion Policy may seem outdated in a changing world. However, regional development remains an overarching issue crucial for addressing global challenges.

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

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

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

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

Future Directions for Cohesion Policy

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

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

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