

The future of the EU Cohesion Policy

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In the 8th Cohesion Report, the EU tried to address key challenges, including demographic trends, climate transition, technological change, and globalization, in addition to the COVID-19 pandemic and its asymmetric impact. While acknowledging that these challenges unevenly affect regions and territories, leading to new disparities between and within the Member States, we argue that appropriate policies supporting the green and digital transition could be the key drivers of the EU growth. Since discussions over the future of cohesion policy is going in parallel with the redesign of the MFF, it will be affected by negotiations regarding the EU's future financial framework. Against that backdrop, we make some recommendations with the aim to improve the effectiveness of cohesion policy.

The context

When the 8th Cohesion Report was published in 2022, in addition to the COVID-19 pandemic and its asymmetrical impact, the EU was trying to address a number of challenges, including demographic trends, the climate transition, technological change, and globalisation. While acknowledging that all these challenges unevenly affect regions and territories, leading to new disparities between and within the Member States, we argue that appropriate policies supporting the green and digital transition could be the key drivers of the EU growth.

In this regard, the Report has spurred debate on how cohesion policy should evolve to respond to these challenges. To reflect on how to maximize the effectiveness of cohesion policy with a view to tackling the mentioned challenges, at the end of January 2023, the European Commission established a Reflection Group of high-level specialists on the future of Cohesion Policy. The Reflection Group, composed of representatives from academia, national, regional, and local politicians, socio-economic partners, and representatives of the civil society, has already held seven meetings, and is expected to publish its strategic conclusions and recommendations in early 2024, followed by the 9th Cohesion Report to be published before the European elections.

This debate should take into consideration a broader context in which the EU, willingly or not, is going through significant changes that will have a deep impact on cohesion dynamics, integration, and intergenerational

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fairness. Recent crises, especially that triggered by the COVID-19 pandemic, the Russian invasion of Ukraine and the Hamas attack on Israel, along with the challenges posed by the twin – green and digital – transition and demographic trends, are all driving the EU to reform its overall financial structure, embedded within the Multiannual Financial Framework (MFF). To make the Union fit for the upcoming years, despite looming uncertainty and constrained financial flexibility, in June 2023 the Commission proposed a package for the mid-term review of the MFF³, that is not yet agreed with the co-legislators.

Since the initial proposal of the MFF for the period 2021-2027 was presented, the Commission put forward two changes. The first relates to the Next Generation EU and was proposed in the wake of the COVID-19 outbreak, while the second is about a review of the functioning of the MFF itself. The latter does not include any direct financial impact on the cohesion policy, but at the same time it has potential consequences which could pave the way for changes in the cohesion policy.

Besides the financial help for Ukraine⁴, among the most salient innovative elements there is a proposal for Strategic Technologies for Europe Platform (STEP), which seeks to reinforce, leverage and steer EU funds – existing and new – to investments in twin, clean and bio technologies and in the human capital of those who can implement technological innovation. While it does not target specifically cohesion policy, the platform builds on existing programmes, including cohesion funds. The STEP proposal states that cohesion policy supports the green (EUR 110 billion) and digital (EUR 36.6 billion) transition in Member States and regions, including a total of EUR 85 billion under the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the Just Transition Fund (JTF) – the EU's main funds under regional development policy – to support the EU energy transition. Under those funds, the Commission also proposes a 30% pre-financing in 2024 to incentivise uptake and increases the EU financing to 100% for STEP projects. Moreover, it aims to provide additional flexibility to Member States, allowing them to implement the 2014-2020 cohesion policy programmes by extending the deadlines for the submission of the closure documentation period by 12 months⁵. This will also contribute to better balance inflows and outflows of the EU budget⁶.

The challenges

Since the discussion over the future of cohesion policy is going in parallel with the redesign of the MFF, it will undoubtedly be influenced by the outcome of negotiations regarding the EU's future financial framework. In the past years, the focus of cohesion policy has moved from the Member State level to their regions, and it has

³ European Commission, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, Mid-term revision of the Multiannual Financial Framework 2021 – 2027, COM (2023) 336 final, Brussels, 20.6.2023;

⁴ European Commission, Proposal for a Regulation Of The European Parliament And Of The Council on establishing the Ukraine Facility COM (2023) 338 final, Brussels 20.6.2023;

⁵ Ibid;

⁶ European Commission, Report from the Commission to the European Parliament and the Council Long-term forecast of future inflows and outflows of the EU budget (2024-2028) COM (2023) 390 final Brussels, 20.6.2023;

progressively integrated multiple priorities. Lately, however, due to its key role in stabilizing public investment and protecting the most vulnerable from shocks, it has increasingly been used as a crisis-coping instrument. The Commission argues that besides the STEP, the twin transitions will require rethinking the very purpose and allocation mechanisms of the cohesion funds.

A crucial element of the revision of cohesion policy will indeed be its alignment with STEP priorities. In the future, cohesion policy will have a crucial role in supporting the EU objectives of transition to climate neutrality, digitalisation and innovation, the competitiveness of the European economy and, finally, the inclusion of migrants in the labour market. This process has already started. Some initiatives have already been implemented to align cohesion policy with the current EU priorities, such as the establishment of the Just Transition Fund and the promotion of differentiated regional smart specialisation strategies (S3 strategies).

Examining various drivers of the regional growth, experts from the Reflection Group have proposed solutions to turn cohesion policy into an instrument supporting the twin transition and other emerging challenges, especially in the sectors indicated as deficient in the 8th Cohesion Report such as equal distribution of skills, fostering entrepreneurship outside larger cities, better innovation diffusion and a stronger economic role of regional governments. They also recognised that, since current challenges will affect EU regions unevenly exacerbating regional disparities, the alignment with the priorities included in the MFF revision appears consistent with the Treaty provisions. In fact, as provided by Article 174 of the Treaty on the Functioning of the European Union (TFEU), cohesion policy aims at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, and that focus should be directed towards rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic disparities and intergenerational unfairness. The reasons why such disparities exist in the Union may vary, and the projects financed must contribute towards the Commission's priorities. Therefore, it is currently considered essential to advance in the implementation of the EU political agenda, notably regarding: “A European Green Deal,” “A Europe fit for the digital age” and “An economy that works for the people”.

Recommendations

Recognizing the relevance of the debate to maximize the effectiveness of cohesion policy, it is crucial to underscore that these policies are already contributing to the implementation of various EU programmes.

Summing up, we recommend:

- Fine-tuning of the cohesion policy to address its challenges. This appears a more favourable option rather than designing new instruments that would inevitably require a compromise between co-legislators and could potentially divert EU resources in favour of other priorities.
- The introduction of risk assessment reporting based on the previous MFF (i.e., 2007-2013 and 2014-2020) into the national partnership agreements. This will guarantee a better understanding of on-the-ground challenges to the implementation of investments⁷.
- The introduction of the Youth test⁸ and a set of youth indicators so as to ensure consistency between cohesion policy and the youth strategy (2019–2027)⁹. This is key to the fight against generational divide and intergenerational unfairness and to promote social inclusion¹⁰.

⁷ Policy Observatory Policy Brief n. 02/2023, Call for risk assessment of unspent public funds, D. Desai, C. Lutringer, L. Monti. <https://sog.luiss.it/sites/sog.luiss.it/files/Policy%20brief%202023.pdf>;

⁸ European Economic and Social Committee, The EU Youth Test (own-initiative opinion) SOC/728 adopted 21/09/2022; and European Economic and Social Committee, Cooperation on youth (exploratory opinion requested by the Spanish Presidency) SOC/759 adopted 15/06/2023;

⁹ Resolution Of The Council Of The European Union and the Representatives Of the Governments of the Member States Meeting Within The Council on a framework for European Cooperation in the Youth Field: the European Union Youth Strategy 2019-2027(2018/C 456/01);

¹⁰ Ibid.