# CHARTING A NEW COURSE FOR COHESION POLICY AFTER 2027

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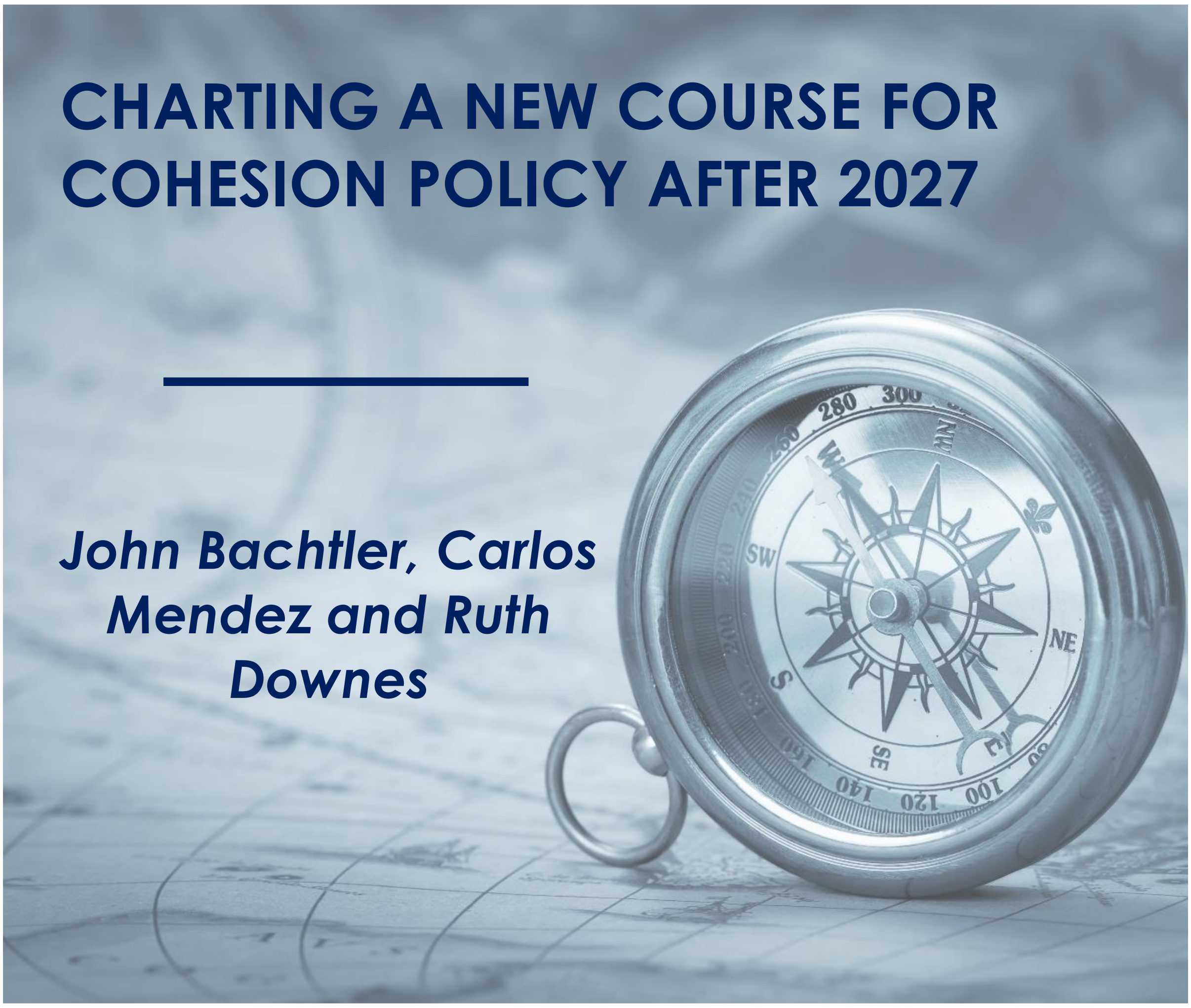

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# TABLE OF CONTENTS

# EXECUTIVE SUMMARY

With under a year to go before the Commission presents proposals for the next MFF and the future of Cohesion Policy, the reform debate is intensifying.

Cohesion Policy is in a weak position given its poor implementation record in 2021-27 with slow absorption (only 5 percent of payments by September 2024) and a rising error rate (6.7 percent in 2022) leading the ECA to question its approach to assurance.

The RRF has made quicker progress in terms of disbursement of funding, but an assessment of performance is not yet possible. Risks to timely absorption include the significant number of milestones and targets still to be fulfilled, and administrative costs have increased over time.

Looking forward, the EU is seeking ways to strengthen its industrial and technological base and economic resilience, ensure better connectivity and improved productivity, in order to achieve strategic autonomy. These are key priorities for the next MFF along with acceleration of the green and digital transitions, dealing with demographic challenges and enhanced security. However, the gap between EU ambitions and the funding available is evident from the difficult discussions over the Mid-Term Revision of the current MFF for the period 2024-2027. Developing and funding a strategy for enlargement is a further challenge.

Much will depend on the approach by the new Commission and a European Parliament with a different political balance. The Commission President is looking for an MFF for 2028-35 that is: more focused on EU priorities and objective; simpler with fewer programmes and investment linked to reforms; and more impactful, focusing more on competitiveness. Radical changes to the MFF have been suggested, potentially merging all shared management funds.

For Cohesion Policy, the Commission is seeking a more place-based approach, tailoring intervention to the specific development needs of territories (including development traps), defending multilevel governance and the role of subnational authorities, greater coherence with other EU and national policies, a more performance-based delivery model, combining reforms and investments putting more emphasis on institutional capacity building. Indeed, DG Budget is considering a radical reshaping of the MFF, merging Cohesion funding with other shared management funds and delivery through national plans/programmes.

At this stage, most Member States have not published their official positions on the reform, but some indication of the national and subnational thinking is provided by EoRPA research, including their perceptions of the added value of the policy and views on the recommendations in the HLG report.

This paper examines the current state-of-play of Cohesion Policy and its future reform beyond 2027. It begins with an overview of the political and policy context for Cohesion Policy. It reviews the current state of play for programming in 2021-27 and also progress with the Recovery & Resilience Facility, which offers an alternative model for implementing EU funding. The paper then discusses the political and policy debates around the current and future MFFs before focusing on the agenda for Cohesion Policy, reviewing the emerging policy positions of the EU institutions and Member States. The final section discusses the key challenges and questions facing Cohesion Policy in the future

The paper concludes by discussing five important questions:

a) the place of Cohesion and Cohesion Policy in the new MFF;

b) the design of a strategic framework to ensure more coherence across EU policies;

c) the changes needed at Member State level to ensure that EU strategic priorities are implemented effectively;

d) how the place-based approach of Cohesion Policy should be strengthened; and

e) the lessons from the experience of implementing NRRPs are applicable to Cohesion Policy to achieve simpler and more results-based management.

# 1 INTRODUCTION

Cohesion Policy is currently in the 'agenda setting' phase in EU policy formation as the EU institutions, Member State authorities, academics, networks, think tanks and lobby groups float ideas and seek to influence the debate within key Commission services on the next reform. While the 1-2 years leading up to the Commission's proposal for the next Multiannual Financial Framework (MFF) and Cohesion Policy legislative framework are always characterised by active debate, the current period is particularly interesting because of the intensity of competing pressures for reform.

Historically, there has been strong 'path dependency' in the budget allocations for Cohesion Policy (and the Common Agricultural Policy, CAP), with its share of the EU budget in the range of 30 and 36 percent since the 1993-99 MFF.[1] Further, the Commission (notably DG Regio) have been adept at framing its proposals for Cohesion Policy reform in ways that address EU priorities (sometimes at the cost of policy coherence), respond to research and evaluation evidence, and address the policy and regulatory concerns of EU institutions (notably the European Court of Auditors and European Parliament) and Member States.

The challenge for the Commission in the current agenda-setting phase is how to reconcile the EU's political priorities in areas such as competitiveness, green transition and defence, with the resistance of Member States to paying more into the EU budget, approving new sources of EU revenue, or increasing EU borrowing. The conflict between sectoral and territorial policy spending has always been present in MFF debates, but the current economic, environmental and security issues demanding attention (and spending) are critical for the EU's future.

The Cohesion domain has often been an 'adjustment variable' to gain acceptance of the MFF on the part of individual Member States and their expectation of net balances, thus ensuring its continued budgetary importance. However, the new Commission has been looking at a major restructuring of the post-2027 MFF with a merging of funds and instruments, potentially diverting funding away from Cohesion Policy and with national funding envelopes allocated to Member States for implementation through 'national plans'.

Further, the forthcoming reform has an alternative model for allocating Cohesion funding in the form of the Recovery & Resilience Facility (RRF) which provides an apparently simpler but also more centralised and prescriptive way of implementing EU funds. While the RRF is time-limited, its performance-based financial management system, linking investment and reforms, may be used for successor instruments such as a possible Competitiveness Fund. The RRF model may also be used for Cohesion Policy and other EU funds in the 2028-35 period in the interests of simplification. Other issues under discussion are a rationalisation of different instruments, a stronger link between the European Semester and Cohesion Policy, and a more strategic framework at EU and Member State levels for planning (programming) EU spending.

Against this background, the following paper examines the current state-of-play of Cohesion Policy and its future reform beyond 2027. The paper picks up the reform story discussed in the 2023 and 2022 EoRPA papers,[2] and continues the longer-term series of annual EoRPA reports on Cohesion Policy now stretching back to 1990.[3] Research for this paper was undertaken during 2024 based on fieldwork interviews with government officials at national and EU levels, as well as secondary source research from policy and academic literature.

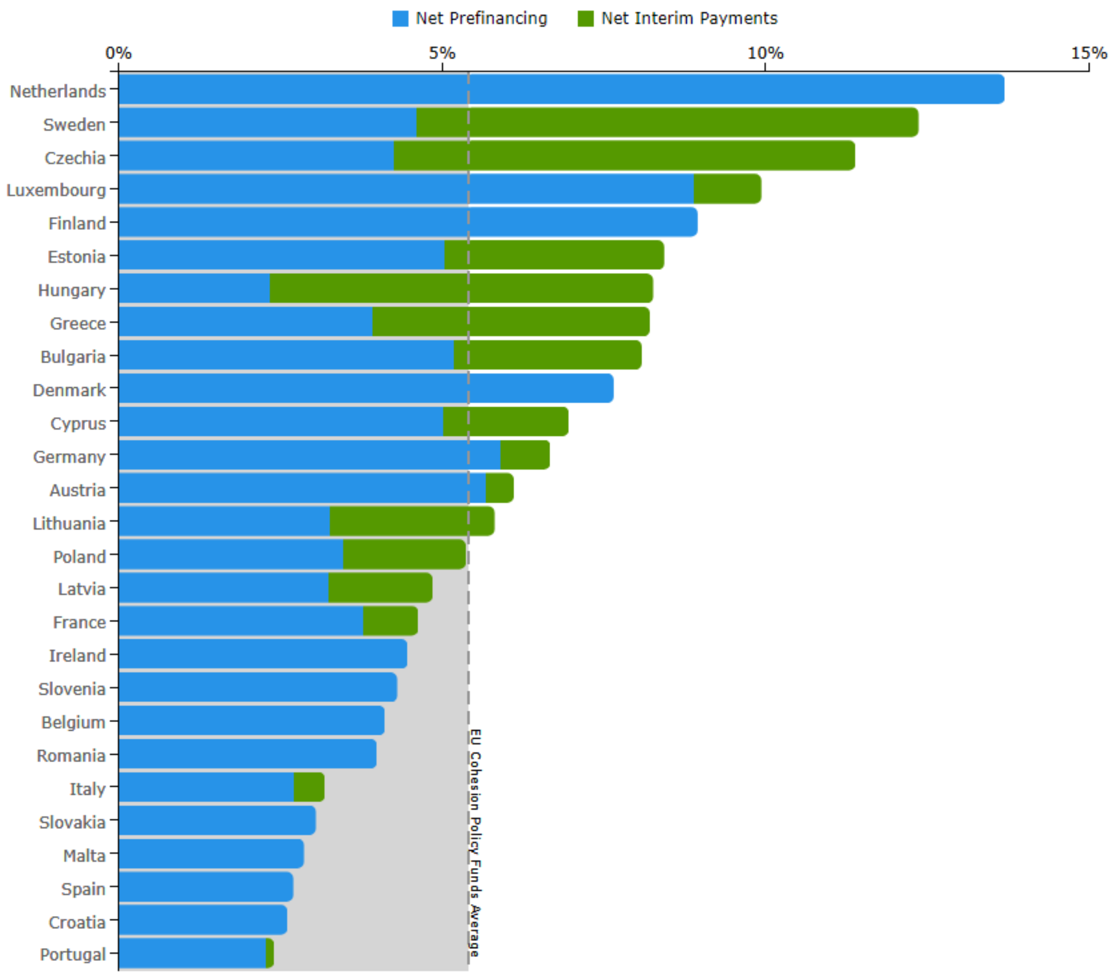
The paper begins with an overview of the political and policy context for Cohesion Policy. It reviews the current state of play for programming in 2021-27 and also progress with the Recovery & Resilience Facility, which offers an alternative model for implementing EU funding. The paper then discusses the political and policy debates around the current and future MFFs before focusing on the agenda for Cohesion Policy, reviewing the emerging policy positions of the EU institutions and Member States. The final section discusses the key challenges and questions facing Cohesion Policy in the future.

# 2 IMPLEMENTING EU FUNDING: COHESION POLICY PROGRAMMES

## 2.1 Progress with spending

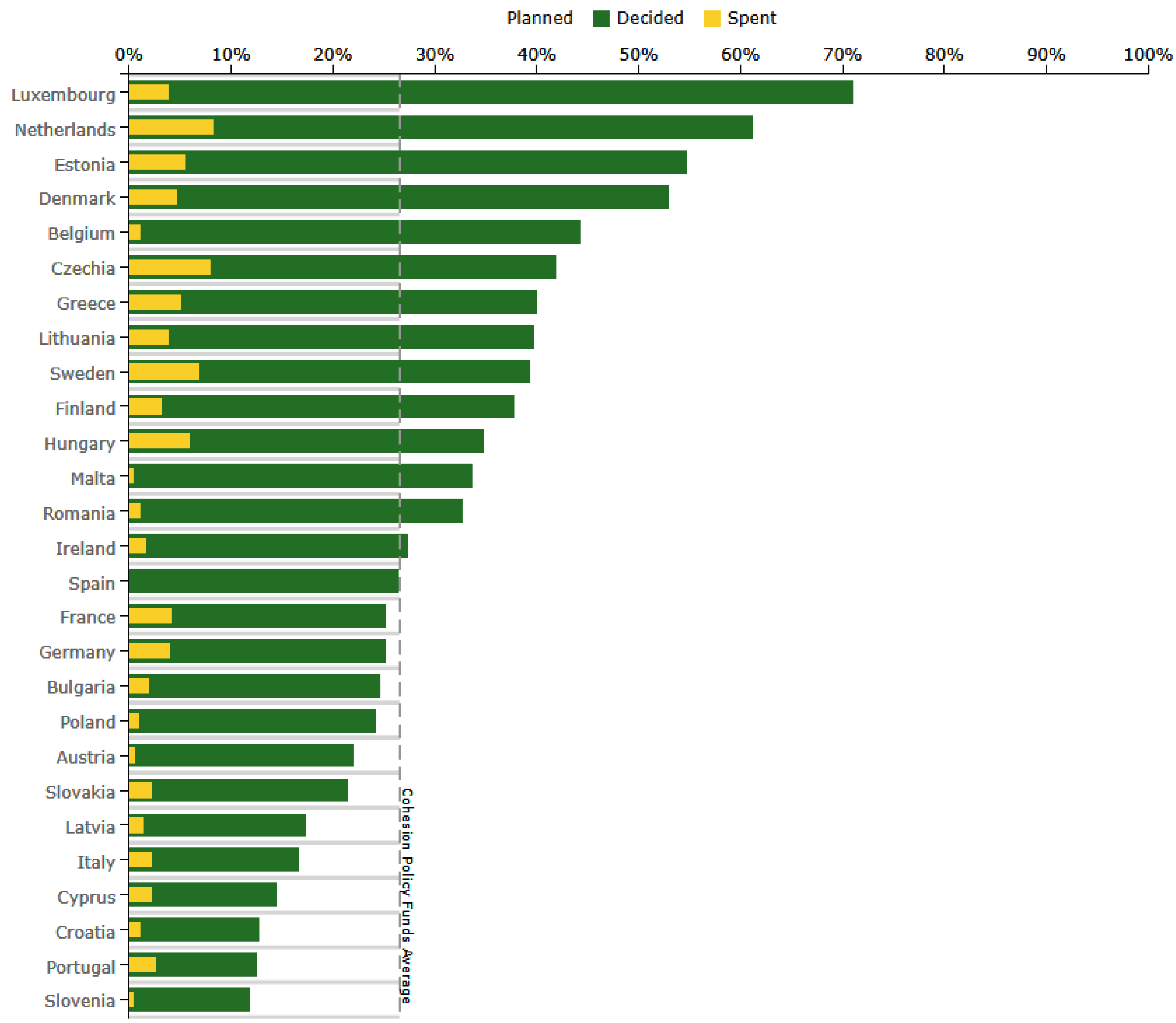
As the 2021-27 programme period progresses into its fourth year, the focus of managing authorities is on the day-to-day delivery of programmes. However, only five percent of EU payments had been made to Member States by mid-September 2024, primarily through pre-financing, with significant variations across countries (see Figure 1). While EU payments are low, project implementation on the ground is significantly more advanced in terms of funding decided (resources allocated to selected projects, an indicator of the project pipeline); and funds spent (expenditure reported by the selected projects).

**Figure 1: Cohesion Policy EU payments by country in 2021-2027**




*Source: Cohesion Open data platform (accessed 17.10.24)*

**Figure 2: Implementation by country – total cost of selection and spending as % of planned**




*Source: Cohesion Open data platform (accessed 17.10.24)*

Comparative EU data on achievements (outputs and results) are anticipated at the end of 2024. The relatively low level of payments is attributable to delays in the approval of the regulations and programmes, overlapping programme periods, new regulatory requirements and EU instruments, financial and economic pressures, strained capacity and thematic issues.

EoRPA research provides some insights into experiences of implementation across the EU, with illustrative examples from individual countries.

**A common challenge is delays linked to overlapping programming periods and the introduction of new instruments**. The need to finalise projects from the 2014-20 cycle has clashed with launching new initiatives such as the Just Transition Fund, JTF (Austria, Germany, Poland, Portugal). France, Portugal and Poland highlight the administrative workload challenge in closing previous programmes while simultaneously implementing the current programmes, with difficulties for implementing multi-period projects in Poland. Many countries also note that the parallel implementation of Cohesion Policy and the RRF, with implementation sequencing in favour of RRF spending given the shorter eligibility period, has created challenges for institutions and project promoters in implementing Cohesion Policy.

**Financial and economic pressures are another factor impacting implementation.** There are high budgetary demands and pressure to meet ambitious national targets in Cohesion Policy (e.g. Czech Republic, Cyprus, Estonia). For instance, Cyprus faces an increased budget for its Cohesion Policy Operational Programme (OP) with high annual targets, along with parallel implementation of RRF projects implemented by the same bodies. The Czech Republic has found spending the NGEU budget of the JTF demanding. Economic instability and the war in Ukraine have impacted beneficiary demand (Poland and Finland), especially among SMEs. Finland has further highlighted the war's adverse effects on border areas and the overall economy. In Sweden, the higher (national) co-financing rate (from 50 percent to 60 percent) has led to some challenges in securing additional national co-financing. Slovenia faces restrictions on funding and lower co-financing rates in Western Slovenia.

**New environmental requirements have been a significant challenge for many countries.** Implementing new requirements such as the 'Do No Significant Harm' (DNSH) principle and Climate Proofing have presented challenges. Austria and Belgium, for instance, report a lack of clarity regarding the rules. Portugal also highlighted challenges in the operationalisation of climate-related regulatory requirements, including DNSH implementation, climate tagging and climate proofing of infrastructures. In Belgium, the Commission's requests relating to Environmental Impact Assessment led to disputes and unexpected delays. Poland has found DNSH compliance complex, especially for smaller beneficiaries.

Amendments to the GBER (General Block Exemption Regulation) (e.g. Section 7 under aid for environmental protection) have required changes to projects in Poland that were already at an advanced stage of planning (e.g. under the Digital OP). There have also been some issues in integrating GBER rules on *de minimis* with State aid and ERDF regulations (e.g. concerning what can be supported in the field of fossil fuels). Under the JTF, the need for EU clarification of State aid on large and complex strategic projects has contributed to delays in their selection process in the Czech Republic and Slovenia.

**Wider thematic and sectoral issues are also impacting implementation**. In Lithuania, there is a perceived disparity between EU and national expectations regarding investment priorities. For instance, while the EU places a high priority on digitalisation, the Green Deal, and innovation, Lithuania continues to prioritise issues such as socio-economic exclusion, housing acquisition, road development, and building infrastructure. Although these expectations are not fundamentally divergent, they create some tensions in the implementation of investment priorities. Italy also notes challenges in aligning national priorities with EU objectives like digitalisation and the Green Deal. While programme implementation is considered to be good in Belgium, with one of the highest levels of commitment in the EU, there are significant differences between and within programmes; in the Flemish programme for example, there are many high-quality project applications for mobility, but fewer suitable projects for digitalisation, while ITI calls tend to be more challenging than other calls.

- **Procuring large infrastructure projects.** Bulgaria faces challenges with public procurement in large infrastructure projects.
- **New project types and beneficiaries.** In Sweden, implementation has been relatively positive, although PO2 has had slower take-up, partly reflecting the much wider range of measures than under the previous TO4 (e.g. circular economy) and the associated need for efforts to attract new actors to apply.
- **Project sequencing.** Delays in the new period will have 'knock on' effects for strategic, complex projects in Poland that involve coordinating several investments e.g. OP Eastern Poland plans to establish a start-up platform for SMEs, requiring a first set of projects to establish the platform to be completed before a second stage focusing on SME support itself.
- **Regulations and calls.** Portugal has faced delays in the approval of specific national regulations in some thematic areas. Other countries highlight challenges in setting up calls and interpreting EU regulations, particularly regarding new thematic challenges such as energy transition (Estonia) or experimental calls that are tailored to a specific and complex problems such as ecosystems in the North of the Netherlands. As noted, France and Slovenia have experienced delays due to additional regulations and the operationalisation of climate-related requirements. Lithuania faces difficulty aligning national legal frameworks (the updated Strategic Management Law and related documents) with EU Structural Funds regulations, which has led to delays in the initiation of some regional measures.
- **Businesses aid schemes.** In the Netherlands, there are ongoing issues related to 'enterprises in difficulty', although due to a change in the GBER, support can now be provided to both the owner of the innovation cluster and the operator of the innovation cluster. In Sweden, there have been some discussions concerning the interpretation of State aid in the context of specific innovation measures, with various stakeholders believing that the Managing Authority has been stricter in the application of rules than necessary.

## 2.2 Experiences with programme management

Regarding programme management, common challenges identified in the EoRPA research are related to administrative capacity, adaptation to IT management systems, financial management of new reimbursement methods and conditionalities.

**Administrative capacity.** Most countries report significant strains on administrative capacity, partly linked to the complexity or changes to EU rules and guidance relating to closure, the Common Provisions Regulation (CPR) and State aid regulations (Hungary, Finland, Sweden). Portugal has faced difficulty in attracting and retaining human resources, especially in relation to some more skilled profiles and functions associated with EU funding. In Slovenia, shortages of staff working in Cohesion Policy are an ongoing issue, especially because of overlapping periods and new tasks, including increased funding under the EU Solidarity Fund following the flooding disaster.

**The delayed finalisation of the IT management systems** is a key issue in Finland, which affects various aspects of programme implementation. Portugal also faced issues with adaptation and consolidation of information systems for European funds and training / capacity-building of users. In Slovenia, the introduction of new IT systems led to delays in implementation causing delays in processing payment claims.

**Simplified costs (SCO) and financing not linked to costs (FNLC)** are being encouraged to reduce administration burden on financial management and control. In Poland for ESF+, there have been challenges in introducing FNLC and SCOs to the OP. This has entailed lengthy and difficult negotiations with the Commission requiring detailed information, in some ways undermining the claim that these methods will lead to simplification. The MA for the ESF OP has also suggested there is scope for reporting and monitoring requirements to be made compatible between ERDF and ESF+ in order to ease implementation challenges.

**Conditionalities were mainly perceived as problematic at the start of the period** although there are ongoing issues. For instance, Belgium reported difficulties when the Commission imposed new thematic enabling conditions late in the process, affecting strategic planning and governance. Hungary's outstanding commitments related to compliance with the rule of law principle, which led to the suspension of 65 per cent of funds to three OPs. At the same time, no funding had been disbursed under the RRF. Furthermore, missing fulfilment of certain enabling condition has blocked additional programme funds. Consequently, the national budget has had to take unprecedented obligations to continue funding of projects under the programmes – also the Recovery Plan – until the EU funding streams are fully restored. Nonetheless, fiscal consolidation measures dictated that public investments are subject to a rigorous analysis and re-prioritised, with a notable share of planned investments put on hold or cancelled.

**Lastly, wider governance and partnership issues** have arisen in some countries. In Sweden, an inquiry into Cohesion Policy governance is expected to lead to significant changes, potentially affecting regional Structural Funds partnerships and the strategic orientation of calls. Most of the recommendations would not take effect until 2028, such as *Tillväxtverket*, the national agency for regional and economic growth, taking the MA responsibility for all the Cohesion Policy funds (ERDF, ESF+ and JTF). The recommendations concerning the regional Structural Funds partnerships are more immediate (from 1 July 2025). The regional Structural Funds partnerships, which are currently responsible for prioritising projects in the regional programmes, are recommended to become more strategically oriented with a focus on the call for proposals stage, and potentially asked also to cover JTF. There is pressure from the Commission audits which have raised questions about the structure of the current regional partnerships.

In Romania, the creation of eight new Regional Operational Programmes (ROPs) for the first time could represent both an opportunity and challenge for implementing projects. This is related to the different capacities and abilities of Regional Development Agencies (MAs) but also the overall differentiation in the quality of local public administration across the country.

## 2.3 Taking stock of implementation: assurance

The European Court of Auditors (ECA) review of the Cohesion Policy assurance framework and the key factors contributing to errors in 2014-2020 Cohesion spending provides an in-depth analysis of Cohesion spending errors in management, and recommendations for future periods.[4] The key findings include the following.

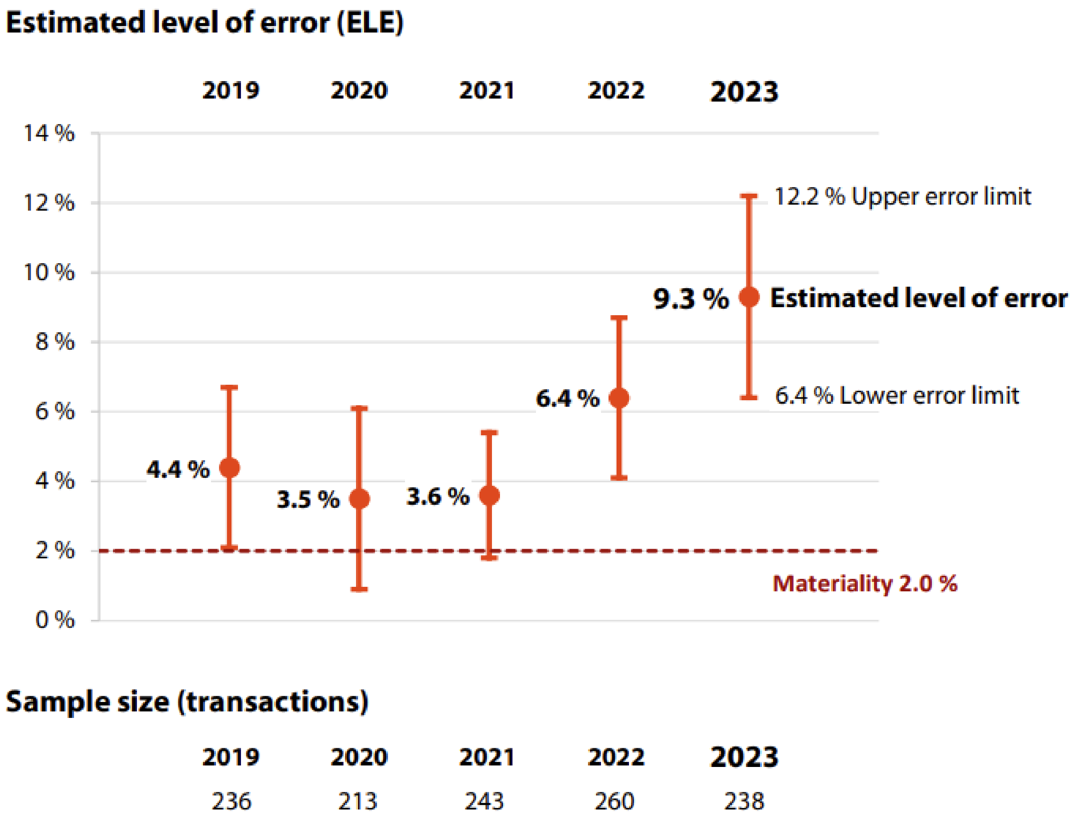
- **Error Rates:** While error rates in Cohesion spending decreased slightly from the previous period (from 6.0 percent in 2007-13 to 4.8 percent in 2014-20), they remain above the two percent materiality threshold and increased significantly to 9.3 percent in 2023 (see Figure 3). The most frequent errors stemmed from ineligible expenditure, public procurement issues, and non-compliance with State aid rules.

- **The role of Audit Authorities:** Managing Authorities and Audit Authorities in Member States play key roles in preventing and detecting errors. However, their effectiveness is limited as around half of the errors identified by the ECA were not detected by national authorities. ECA audits revealed significant gaps in their work, especially regarding project selection and eligibility criteria.

- **Commission oversight:** The Commission reviews annual accounts from Member States, primarily through desk reviews and compliance audits. However, desk reviews are not designed to detect all ineligible expenditure, and the number of compliance audits is limited, which constrains the Commission's ability to detect errors missed by national authorities.

- **Root causes of errors:** Key causes of errors include inadequate administrative procedures by national authorities, negligence or intentional non-compliance by beneficiaries, and inconsistencies in interpreting legal requirements across Member States. About half of the additional errors detected by the ECA were due to poor administration at the national level.

**Figure 3: ECA error estimates for Cohesion spending, 2019-2023**




*Source: ECA (2024)*

**The review recommends that the European Commission take further action to improve the assurance framework for the 2021-2027 period**. This includes increasing the number of compliance audits, enhancing national authorities' capacity to detect errors, and adjusting the regulatory framework to mitigate recurring types of errors. The review acknowledges that new challenges, such as the Covid-19 pandemic, led to the introduction of temporary 100 percent EU funding without national co-financing. This increases the pressure to absorb funds efficiently but also poses risks for regularity and sound financial management. Moving forward, the ECA consider that more robust mechanisms to ensure proper spending will be needed as the EU transitions into the 2021-2027 budget period.

**A more fundamental issue concerns the effectiveness of audit and its impact on wider objectives.**[5] Despite the 'audit explosion', error rates have not seen major improvements over time. This raises questions about the compliance model's efficiency, and that excessive focus on financial control may detract from the ability of programme management staff to pursue the broader objectives of Cohesion Policy effectively.

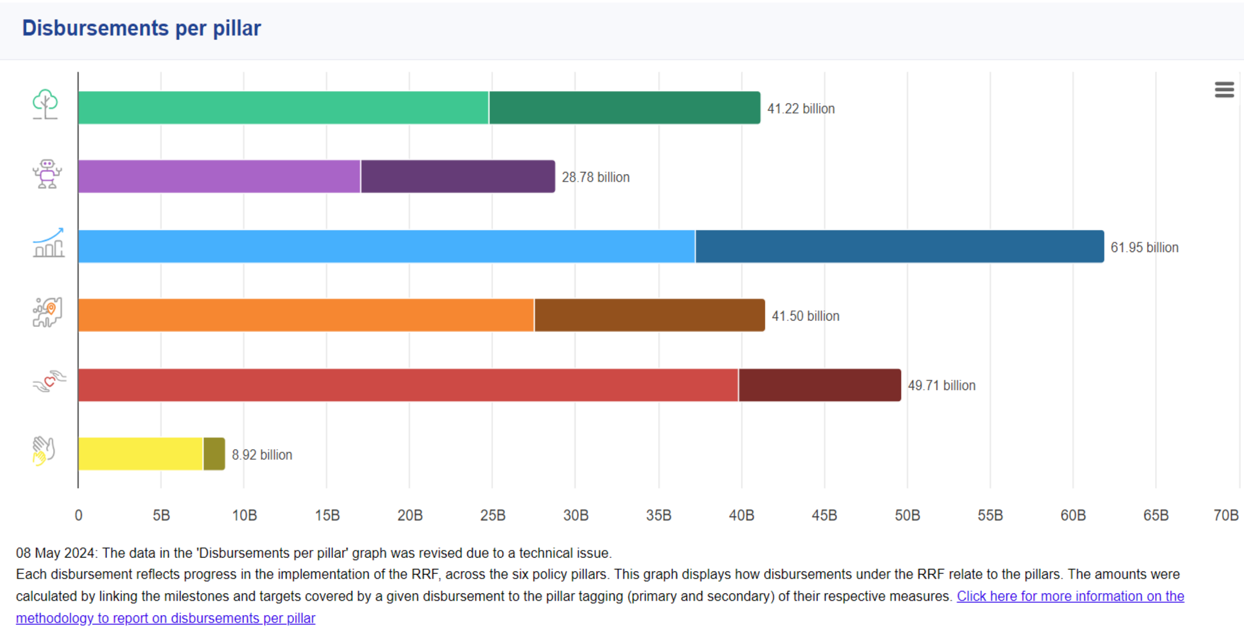
# 3 IMPLEMENTING EU FUNDING: RECOVERY & RESILIENCE PLANS

The RRF was created by the EU to support economic recovery from the Covid pandemic while also promoting investment in the green and digital transitions. It is backed by significant financial resources worth a total of €723.8 billion through both loans (€385.8 billion) and grants (€338 billion) and is managed by the Commission together with national governments with an important role for the European Council in determining compliance. A new administrative infrastructure has been created for the implementation of the RRF, with coordination by the RECOVER Task Force in the Secretary-General, working with DG ECFIN, DG REFORM (where requested by Member States) and other Commission services.

## 3.1 Disbursement of the RRF

The position with disbursement according to the RRF Scoreboard is that €170.77 billion in grants and €94.6 billion in loans have been disbursed (see Figure 4).[6]

**Figure 4: Disbursements from the Recovery and Resilience Facility**



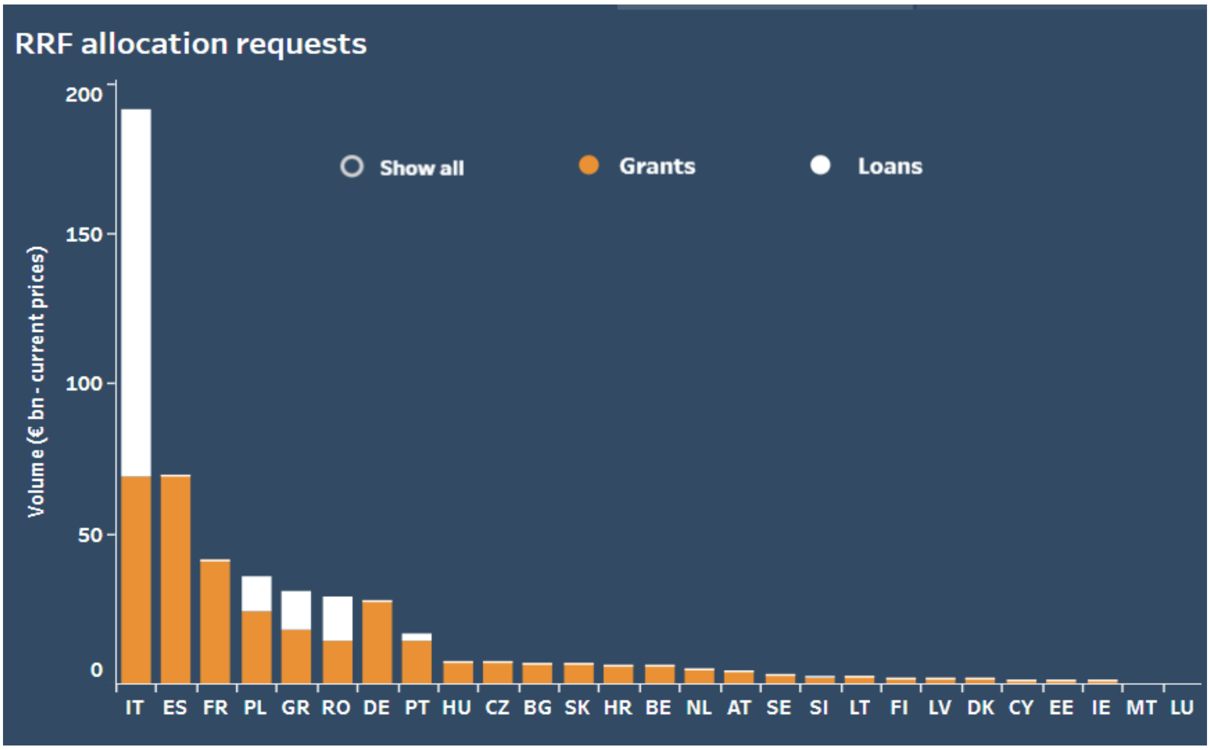

*Source: RRF Scoreboard (accessed 17.10.24). The most recent data on the Scoreboard are for 8.5.24.*

The highest disbursement by some distance has been under the pillar of 'smart, sustainable and inclusive growth', followed by the two pillars of 'green transition' and 'health and economic, social and institutional resilience'. The pillars of 'digital transformation' and, in particular, 'policies for the next generation, children and youth' show much lower levels of disbursement.

In terms of milestones and targets, the RRF Scoreboard notes that 23 percent have been fulfilled, representing 4,400 fulfilled milestones and targets for investments and 2,700 for reforms.

In terms of disbursement by EU Member State, Italy and Spain have received the largest contributions in absolute figures (see **Figure 5**).

**Figure 5: RRF allocation requests**




*Source: Recovery and Resilience Facility Monitor, Centre for European Policy Studies (RRF Monitor (ceps.eu))*

Disbursements of RRF funds following the 'satisfactory completion of milestones and targets' by the end of 2023 varied widely across Member States (see **Figure 6**). With an EU-27 average of 37 percent of RRF funding disbursed, six countries exceeded the average (France, Portugal, Spain, Italy, Greece and Croatia) with France showing the highest disbursement proportion of 59 percent. According to the RRF scoreboard, seven countries (Belgium, Finland, Hungary, Ireland, the Netherlands, Poland and Sweden) had no funding disbursed as yet based on fulfilment of milestones and targets.[7]

## Figure 6: RRF disbursements for the satisfactory fulfilment of milestones and targets, end 2023

| | Proportion of funding disbursed | Proportion of satisfactorily fulfilled milestones and targets | Total number of milestones and targets | M&T satisfactorily fulfilled by Q4 2023 |
|---|---|---|---|---|
| **France** | 59 % | 53 % | 175 | 93 |
| **Portugal** | 48 % | 28 % | 341 | 96 |
| **Spain** | 46 % | 29 % | 416 | 121 |
| **Italy** | 46 % | 34 % | 525 | 178 |
| **Greece** | 40 % | 26 % | 331 | 87 |
| **Croatia** | 38 % | 28 % | 371 | 104 |
| **EU-27** | 37 % | 19 % | 2 159 | 679 |
| **Slovakia** | 33 % | 30 % | 196 | 58 |
| **Luxembourg** | 32 % | 41 % | 63 | 26 |
| **Estonia** | 30 % | 23 % | 124 | 29 |
| **Lithuania** | 29 % | 16 % | 191 | 31 |
| **Slovenia** | 24 % | 31 % | 209 | 64 |
| **Austria** | 23 % | 26 % | 171 | 44 |
| **Denmark** | 22 % | 32 % | 77 | 25 |
| **Bulgaria** | 22 % | 6 % | 346 | 22 |
| **Romania** | 21 % | 14 % | 507 | 70 |
| **Malta** | 19 % | 14 % | 138 | 19 |
| **Germany** | 17 % | 28 % | 129 | 36 |
| **Czechia** | 15 % | 15 % | 244 | 37 |
| **Latvia** | 12 % | 4 % | 214 | 9 |
| **Cyprus** | 8 % | 5 % | 271 | 14 |
| **Belgium** | 0 % | 0 % | 210 | 0 |
| **Finland** | 0 % | 0 % | 140 | 0 |
| **Hungary** | 0 % | 0 % | 270 | 0 |
| **Ireland** | 0 % | 0 % | 109 | 0 |
| **Netherlands** | 0 % | 0 % | 127 | 0 |
| **Poland** | 0 % | 0 % | 283 | 0 |
| **Sweden** | 0 % | 0 % | 56 | 0 |

*Source:* ECA based on the operational arrangements and the Commission's Recovery and Resilience Scoreboard.

*Source: ECA Special Report 13/2024*

The Commission's Communication of February 2024 on the mid-term evaluation of the RRF noted that €225 billion had been disbursed representing €67 billion in prefinancing and €157.2 billion following the satisfactory fulfilment of milestones and targets.[8] Of the milestones and targets planned to be achieved by the end of 2023, 75 percent had either been assessed by the Commission as 'fulfilled' or reported as 'completed' by Member States. By the start of February 2024, 18 percent of all milestones and targets had been assessed as satisfactorily fulfilled and a further 20 percent had been reported by Member States as completed. All the Recovery and Resilience Plans (RRPs) of Member States were updated in 2023 to address new challenges and support implementation. Through the revisions, nearly €150 billion was made available to EU economies in 2023 via additional grants for REPowerEU chapters and €125.5 billion of loans.

Member State assessments of progress in delivering National Recovery and Resilience Plans (NRRPs), from the EoRPA research, vary significantly across countries, with some reporting successful implementation and others facing significant delays. For instance, Romania has reached only 14 percent of its milestones and targets, and no investments have been finalised. Slovenia faces delays in key reforms, particularly in areas like health and long-term care, although coordination between the government and stakeholders has improved recently. Portugal has met 23 percent of its milestones and targets and is on track with its financial implementation, notwithstanding concerns about potential delays. In Austria, projects are being implemented, but there are delays in payment requests, particularly for reforms.

Political and institutional challenges contributed to slower progress in several countries. In Bulgaria, significant delays are attributed to political instability, impacting legislative reforms required to unlock further funding. Cyprus also reports delays, particularly in public procurement, due to rising costs and supply chain issues, though progress has been deemed satisfactory after adjustments were made to the NRRP. In the Czech Republic, targets are being achieved, though a final evaluation is not expected until 2026. Estonia has successfully disbursed over half of its recovery funds and coordinated its NRRP with its OP. However, the rigidity of the performance-based framework is viewed as presenting challenges. Italy, with the largest NRRP in the EU, has faced challenges in transparency according to interest groups, and while some €45 billion has been spent, critics argue that delays in spending and a lack of comprehensive data on project progress hampering full evaluation.

Financial suspensions linked to conditionality have delayed implementation in Hungary and Poland. In Hungary, despite progress on some aspects of delivery, access to RRF funds remains suspended until reforms are implemented, creating significant delays. In Poland, RRF funding was blocked until 2024, but progress has accelerated since then, though there are still concerns about meeting targets due to overlapping responsibilities between the NRRP and Cohesion Policy.

A key emerging theme is regional variation in implementation. For instance, Belgium presents marked contrast between its regions: Wallonia reports that over 85 percent of its projects have been launched, with the NRRP adapted to address issues like flooding, while Flanders struggles to meet milestone targets.

## 3.2 How effective is implementation of the RRF?

Policy and evaluation evidence on the effectiveness of the RRF implementation is now emerging, including through the mid-term evaluation of the Facility and reports from the European Court of Auditors.

### *3.2.1 Mid-term evaluation: no systematic assessment yet possible*

The mid-term evaluation of the RRF provided an assessment of how the RRF is delivering on its objectives against five evaluation criteria: effectiveness; efficiency; relevance; coherence; and EU added value. The evaluation covers the implementation period up to 1 February 2024. It notes that "*given that most measures, particularly investments, have not yet reached the level of full implementation, it is not feasible at this point to provide a systematic assessment of results and impacts of the Facility*".[9]

The evaluation has some positive findings at this stage of implementation. These include the rapid provision of financial support to Member States through the pre-financing in the context of pandemic recovery and the ability of the RRF financing to support the implementation of reforms. This has supported Member State ability to respond to European Semester Country Specific Recommendations (CSRs). The combination of reforms and investments within the framework of a single financing instrument was considered to create synergies and support the internal coherence of national growth plans.

In terms of EU added value, the initial qualitative evidence from the mid-term evaluation points to additionality in a number of areas. These include scale of financial support, anticipated strengthening of economic convergence and acceleration of the delivery of long-standing and sometimes politically sensitive reforms. The implementation of multi-country projects, particularly in green and digital transition, is also noted as an area of added value. By design, the RRF also ensures a strong alignment of the Member States with key EU policy priorities.

More negatively, the evaluation found that the administrative work associated with the implementation of the RRF was considerably higher than originally anticipated at both national and sub-national levels. Administrative costs have increased over time, and many Member States considered the process of amending the RRPs to be complex and unwieldy. The complicated audit and control framework built into the RRF Regulation is also associated with high administrative costs, and many Member States have called for an improved balance between transparency and control. The co-existence of performance-based and costs-based approaches of the RRF and Cohesion Policy exacerbated this situation. The large amount of RRF finance in addition to Cohesion Policy funding has also put strain on the absorption capacity in some Member States.

The evaluation identified scope for improvement in terms of stakeholder involvement in implementation, particularly regional and local authorities and social and civil society partners. This has been particularly true for Member States with a more decentralised structure for management. The evaluation points to the fact that more centralised RRF coordination bodies tend to be correlated with greater efficiency in the design and delivery of the NRRPs. Overall, in terms of implementation efficiency, while the planned and disbursed financing were in line for 2021-22, significant risk of delays has emerged since 2023 due to factors including the shift of NRRPs towards investment spending, administrative capacity, unfulfilled milestones and targets and external factors such as the war in Ukraine and the energy and cost of living crises.

***Ultimately, the main factors influencing the effectiveness of the RRF compared to CP are the link to reforms, the political support, and media attention.[10]***

The evaluation was supported some external studies. The main 'Study supporting the Mid-term Evaluation of the RRF'[11] looks at the mid-term evaluation as a whole and there are also supporting case studies on each of the six pillars of the RRF. A further supporting study examines the functioning of the RRF and other EU funds, focused in particular on Cohesion Policy, which draws out the following key points.[12]

- *Reforms*. The linkage of funding to reforms means the RRF has supported improvements in the institutional and strategic enabling frameworks within which Cohesion Policy operates. However, reforms vary quite widely in terms of ambition and scope within the individual RRPs.

- *Financial size*. The RRF is associated with significant financial resources, but the short implementation timescale means that RRF spending has sometimes been preferred to Cohesion Policy at project level. This has led to some displacement of resources and increasing administrative capacity issues as the RRF implementation shifts more towards investments.

- *Territorial dimension*. The RRF can be a tool to support competitiveness and investment in more developed regions which still have important needs in terms of the green and digital transitions in particular. However, the lack of a territorial dimension in the RRF has raised concerns of increasing regional disparities in Member States, particularly if investment is more likely to flow into regions with stronger institutional frameworks and growth potential.

- *Sectoral targeting*. RRF spending targets sectors traditionally covered by Cohesion Policy but also has a much wider scope in areas including justice, healthcare, tax and pension systems. Demarcation lines have been necessary in the sectors covered by both instruments, for example through eligibility criteria. Some indirect benefit to Cohesion Policy can be seen where wider framework conditions are improved under RRF reforms.

The familiar challenges facing the implementation of Cohesion Policy, including administrative capacity, the balance between control and excessive scrutiny and a lack of projects are emerging more now for the RRF as the focus shifts towards investments. The simplification and administrative cost reduction which was anticipated under the RRF approach has not emerged and is likely to worsen with the move towards the greater investment focus of the RRPs. The study concludes that the RRF is perceived to have lower flexibility in adapting to new circumstances than the more established Cohesion Policy framework.

### 3.2.2 European Court of Auditors: difficult to assess performance

The European Court of Auditors (ECA) has published three key reports relating to the implementation and performance of the RRF (see Box 1).[13]

**Box 1: European Court of Auditors reports on RRF performance and fund absorption**

***The Recovery and Resilience Facility's performance monitoring framework (26/2023)***

- Aim to examine whether RRF's monitoring framework is appropriate for measuring performance over time (up to December 2022) i.e. is it meeting its objectives and providing value for money?
- Monitoring framework measures with implementation progress but not overall performance.
- The milestones and targets vary in ambition and largely focus on outputs rather than results. The common indicators do not fully cover the six pillars, only a limited number measure results and do not fully cover all aspects of the RRF's performance.
- Data are closely monitored but risks to reliability remain, particularly at final recipient level. Data on common indicators are limited and largely based on estimates. The RRF Scoreboard is impacted by such data quality issues and lacks transparency in some aspects.
- ***Recommendations***: ensure comprehensive monitoring and evaluation framework; improve quality of data for common indicators; improve Scoreboard transparency and data quality; and ensure more informative and consistent report aligned with all legal requirements.

***Absorption of funds from the Recovery and Resilience Facility (13/2024)***

- Aim to assess whether funds disbursed and absorbed as planned and identification of risks.
- The absorption of RRF funds is progressing with some delays but risks to absorption and the completion of measures in the second half of the implementation period can be identified.
- By the end of 2023, Member States had requested €228 billion of the €273 billion expected to have been required but seven countries had not received any funds for the fulfilment of milestones and targets. By October 2023, ca. half of the funds received had been paid to final recipients although consistent and complete information is lacking.
- Common reasons for delays include changes in external circumstances (e.g. inflation, supply shortages), underestimated time required for implementation, uncertainty regarding some RRF rules (e.g. DNSH) and administrative capacity. The Commission and Member States have taken action to address issues but the impact of amended RRPs and ongoing uncertainty regarding aspects of Commission guidance means impact remains to be seen.
- The Commission monitored progress but did not systematically required information on actions to combat delays despite carrying ultimate responsibility for implementation.
- Risks to timely absorption and completion of include the significant number of milestones and targets still to be fulfilled and the shift from reforms to investments which can be more complex to deliver.

***Recommendations***:

- consistent application of 'final recipient';
- provision of additional Commission guidance and support;
- improved monitoring and mitigation of the risk of non-completion of measures and related financial consequences; and
- strengthen the design of future instruments based on financing not linked to costs.

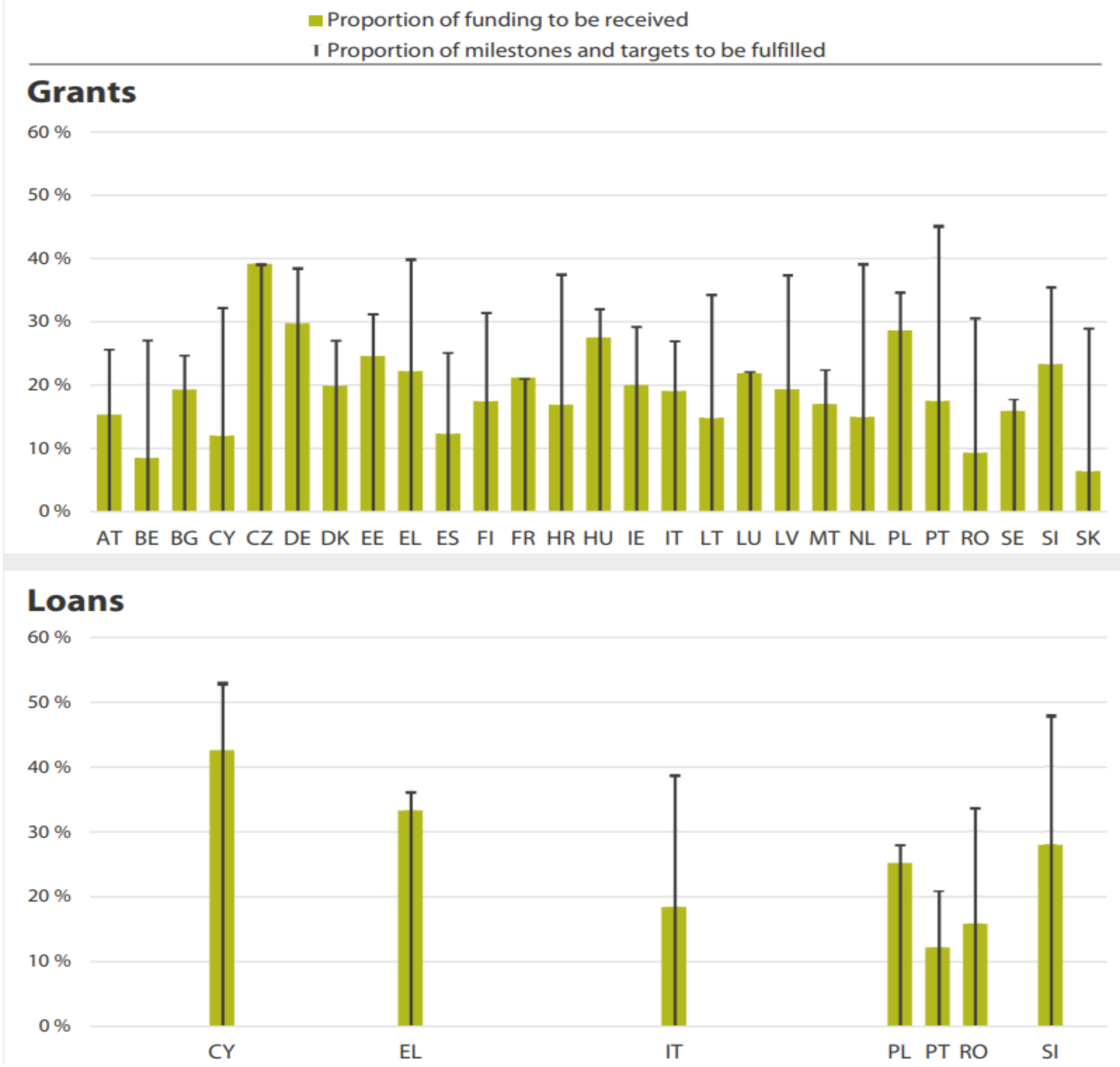
***Double funding from the EU budget: Control systems lack essential elements to mitigate the increased risk resulting from the RRF model of financing not linked to costs (22/2024)***

- Aim to assess design and implementation of systems established by the European Commission and Member States to prevent, identify and correct double funding between RRF and Cohesion Policy funds and the Connecting Europe Facility.
- The use of funding instruments based on financing not linked to costs has resulted in higher risk of double funding although the control systems established are not yet adequate to mitigate this risk. These weaknesses mean that double funding can barely be identified.
- There are a number of essential elements missing in control systems which could reduce the risk of double funding including issues of definition and clarification, insufficient measures related to late issuing of EU guidance and delayed finalisation of Cohesion Policy programmes and fragmented IT context including difficult data exchange.

***Recommendations***:

- Adjust definition of double funding to specificities of 'financing not linked to costs' model and clarify and strengthen control requirements in funding programmes/instruments accordingly;
- Strengthen controls on zero-cost measures;
- Strengthen coordination between funding programmes and instruments;
- Establish and implement integrated and interoperable IT systems and data mining tools; and
- Strengthen assurance on the absence of double funding when using financing not linked to costs.

**Figure 7: Overview of payment requests in relation to disbursements**



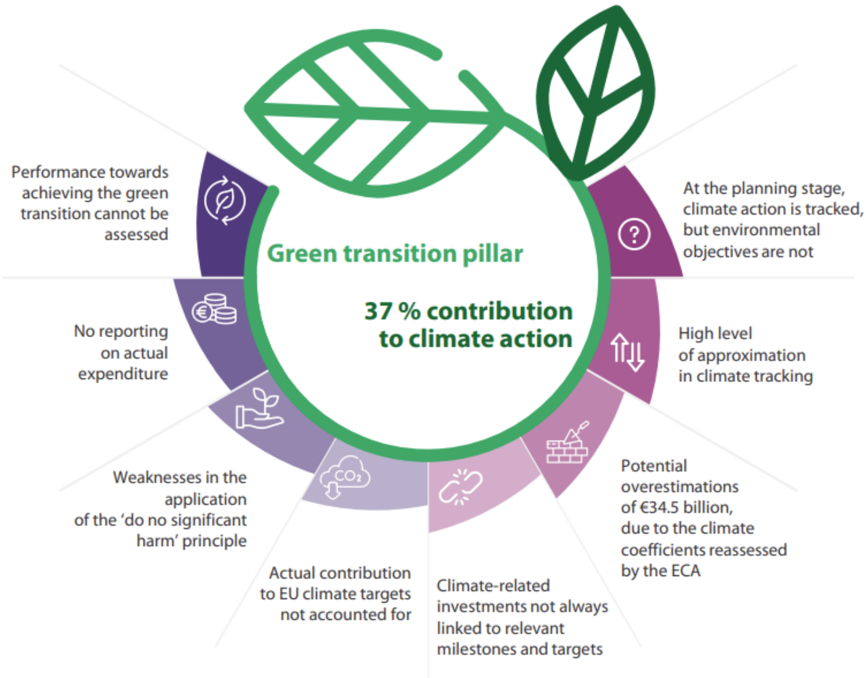

*Source:* ECA, based on the Council Implementing Decisions.

Delays in funding requests are being experienced for a variety of reasons and while action has been taken by the Commission and Member States to improve the situation, the genuine impact of these remains to be seen. Ongoing problems with administrative capacity and staffing shortages appear to be widespread. The relationship between the disbursements that have been received and the milestones and targets achieved differs considerably across Member States (see Figure 7). A significant number of milestones and targets remain unfulfilled which poses a risk to absorption and implementation in the second half of the RRF term.

Overall, the reports conclude that, while there is progress with the implementation of RRF funding, it is more difficult to assess the actual performance of the Facility. Data quality and checking by the Commission remains an issue, also for the transparency of the RRF Scoreboard. Control mechanisms against double funding between the RRF and Cohesion Policy funds are insufficient, particularly in relation to funding instruments based on financing not linked to costs. The ECA's Annual Reports for 2023 and 2024 also identified multiple examples of milestones and targets failing to meet payment and eligibility conditions, arguing that vaguely defined milestones opened the way for subjective assessment which, in turn, had the potential to undermine RRF objectives.[14]

In terms of the specific contribution of the RRF to the **green transition**, a separate 2024 ECA report[15] found shortcomings in the design of the RRF framework and the national RRPs in the audited Member States. There were inconsistencies in measure implementation in this area, in particular high levels of approximation in tracking climate expenditure resulting in potential overestimations. There were only weak indications regarding how RRF measures were contributing to the green transition, and the contribution of the RRF towards EU climate objectives and targets is not assessed nor required under the legislation. Reporting on climate spending and green transition was also divorced from actual costs and results. Overall, the report questioned the achievement by the RRF of its stated climate and environmental objectives (see Figure 8).

**Figure 8: Weaknesses in the design and implementation of RRF towards green transition**




*Source: European Court of Auditors, Special report 14/2024*

An earlier ECA report in 2023 examined the design of the Commission's **control system for the RRF**[16] and concluded that the system provides for an extensive process in verifying the fulfilment of milestones and targets but provides only limited verified information that RRF funded investment projects genuinely comply with EU and national rules. This leaves an EU-level 'accountability gap'. There are also gaps in other areas such as how to quantify the impact of not fulfilling a milestone or target or guidance related to risks of measures being reversed after milestones or targets have been fulfilled. The report also recommended that reporting on RRF related fraud be better aligned.

### 3.2.3 *National assessments of the RRF*

There is only limited national-level evaluation or audit evidence on performance of the RRF. Some exceptions are summarised here from Austria, Finland, Germany and the Netherlands.

- **Austria:** a macroeconomic modelling *ex ante* evaluation of the Austrian NRRP conducted for the national Ministry of Finance in 2021 found a positive projected impact on GDP and private investment, particularly with respect to investment in digital infrastructure and digital skills.[17] It concluded that:

  > *"the Austrian RRP increases public and private investment demand and leads to substantial increase in GDP in the short and medium run. In particular, grants and subsidies stimulate a substantial increase in private investment. In the short run, this generates strong demand effects that are important for a fast economic recovery of the economy from the Covid-19 crisis."*

- **Finland:** an audit of the Finnish NRRP[18] found the governance model to be complex but effective overall, though some issues in data transfer between information systems were identified (see Box 2).

- **Germany:** the Federal Audit Office (*Bundesrechnungshof*)[19] has identified structural weaknesses in the management of the NRRP (contested by the Federal Ministry of Finance), notably lack of federal control over milestones and targets, thereby posing risks to the federal budget. The Audit Office has recommended changes to the governance structure to improve control over fund disbursement.

- **Netherlands**: an evaluation found that climate and digital targets are being met, but there have been some inefficiencies in skills investment programmes like *The Netherlands continues to Learn.*[20] While the design of the scheme, its use of lessons from previous schemes and its adaption in response to experience were rated as positive, the study highlighted the need for further follow-up to ensure acquired skills are used effectively in the labour market.

**Box 2: Finland: NRRP governance and implementation challenges**

In November 2023, the Finnish National Audit Office published a report on the implementation and governance of Finland's NRRP. The report evaluated the use of funds, governance and performance management and provided recommendations.

**Key findings**

- **Use of Funding:** The audit confirmed that RRF funds were used in compliance with the regulations, ensuring adherence to EU legal requirements, which is crucial for future funding.
- **Governance model complexity:** The governance model involved numerous central government authorities, making it complex to manage. However, despite challenges in maintaining consistency and resources, authorities generally performed their tasks well.
- **Data Management:** Data transfer between different authority systems posed risks, as much of the data entry was done manually. Although the centralised system managed basic requirements effectively, these risks highlighted the need for improved accuracy.
- **Financial Information accuracy:** The European Commission's focus on achieving milestones before approving payments made it critical for Finnish authorities to report accurate financial data. Ensuring consistency between financial reporting and NRRP objectives was emphasised as a key challenge.
- **Monitoring national objectives:** The audit noted a lack of comprehensive information on Finland's national objectives. General objectives and unsuitable RRF indicators made it difficult to track achievements, complicating performance evaluation.
- **Performance management issues:** Challenges were identified in defining project objectives, indicators, and verifying effectiveness. The Audit Office recommended stronger supervision by the State Treasury to improve the management of RRF projects.

**Recommendations**

The Audit Office recommended simplifying the governance model, ensuring joint monitoring of NRRP objectives, and improving the accuracy of financial reporting. Greater collaboration between the Ministry of Finance and the State Treasury was emphasised to enhance oversight.

*Source: Valtiontalouden tarkastusvirasto (2023)*

## 3.3 The impact of the RRF on Cohesion Policy

The interaction between NRRP and Cohesion Policy governance varies widely across countries in terms of administrative coordination, synergies, resource competition, governance structures, and flexibility. EoRPA interview and desk research identified that, while some countries have strong integration between the two frameworks, others face challenges related to capacity, overlap, and the rigidity of implementation.

Administrative coordination has led to both **delays and streamlined processes** in some countries. Overlapping responsibilities between implementing bodies, such as in Austria and Slovenia, among others, have caused delays as staff and resources were diverted to NRRP, slowing down Cohesion Policy management and implementation. However, integrating both frameworks under the same Ministry is perceived to have provided strategic unity, avoiding overlaps through clear demarcation lines (e.g. Hungary, Portugal). Centralised approaches, as seen in Bulgaria, have helped minimise disruption, while countries like Ireland have promoted coordination by integrating the RRF into Cohesion Policy committees.

**Synergies and complementarities** between NRRP and Cohesion Policy are seen as important in several countries. Estonia has aligned both frameworks, particularly in green and digital investments, using shared management systems. Cyprus is addressing absorption targets by coordinating projects under both frameworks. France and Poland have focused on preventing overlaps by ensuring strategic priorities align. In Germany, the RRF has restricted the scope of Cohesion programmes, with a clear division established between RRF and Cohesion Policy funding in areas like energy efficiency and hydrogen. However, some German states (*Länder*) opted not to invest in areas covered by the RRF, complicating planning for those that did.

**Competition for resources** between NRRP and Cohesion Policy has impacted on governance. The Czech Republic has seen competition between the frameworks for similarly focused projects and administrative resources. As noted, Slovenia has redirected staff previously working on Cohesion Policy to the NRRP coordination and implementation bodies to accelerate RRP implementation, delaying the implementation of Cohesion Policy. In Romania, the NRRP has overshadowed Cohesion Policy, leading to concerns about ministerial ability to manage both frameworks effectively. Poland's organisational changes following the NRRP's launch have also drawn resources away from Cohesion Policy. In Germany, more favourable State aid conditions under the RRF are perceived to have led to some shifts in investment away from Cohesion Policy.

Influence on **governance structures** has been significant in some countries. In Hungary, the NRRP's priority has accelerated Cohesion Policy governance, enabling the establishment of demarcation lines and synergies between the two frameworks. Italy has restructured its governance to enhance coordination by assigning joint responsibilities to ministries and local administrations. The Netherlands has implemented monitoring mechanisms to prevent double financing between NRRP and Cohesion Policy, ensuring clear accountability for both frameworks. In Finland, an assessment of the NRRP found alignment with Cohesion Policy objectives and priorities with clear demarcation across measures, although target groups can be similar, and recommended joint fora to ensure that the implemented actions under RRF and the Structural Funds programme have positive effects and are coordinated effectively.

Flexibility and adaptation remain challenges for the NRRP, which operates under a more rigid framework with respect to targets, and negotiating changes to them, compared to Cohesion

Policy. Estonia has noted the contrast, as the NRRP follows a stricter performance-based approach to disbursements, while Cohesion Policy is perceived to allow for more flexibility in implementation. Ireland and Poland have also expressed concerns about the challenges of adapting NRRP targets to shifting political and economic contexts, relative to Cohesion Policy.

Limited influence and separation of the NRRP from Cohesion Policy is seen in some countries. In Finland, governance and implementation of both frameworks remain largely separated, with no significant overlap. In Sweden, the two frameworks are administered by different ministries, and while there is cooperation on specific priorities, broader alignment has not been prioritised. The Netherlands similarly reported minimal direct influence of the NRRP on Cohesion Policy, though measures are in place to prevent overlapping financing.

Overall, the integration and influence of NRRP on Cohesion Policy governance and implementation depend on how well countries manage coordination, synergies, resource competition, governance adjustments, and flexibility. While some countries report successful alignment, others face ongoing challenges in balancing the two funding mechanisms.

## 3.4 Lessons from the RRF for Cohesion Policy

Turning to key lessons from the RRF for Cohesion Policy, again drawing on EoRPA research, the **performance-based budgeting approach** under the RRF has often been praised for driving efficiency and focusing on results. This results-oriented governance model is seen as a potential enhancement for Cohesion Policy although not without challenges (France, Greece and Italy). The connection between reforms and investments is also viewed as a beneficial element that could be integrated into future policies. In Slovenia, the performance-based model has been positively received, especially for its focus on milestone achievements, and the Czech Republic has highlighted the advantages of the results-oriented framework as a useful governance approach.

However, **the centralisation of decision-making under the RRF** has sparked concerns in several countries. Italy has noted that while centralisation helps ensure alignment with EU objectives, it can limit the flexibility needed to address regional objectives, posing challenges for implementing Cohesion Policy. Slovenia expressed concerns about the centralised nature of RRF governance, arguing that the strong role of the European Commission compromises subsidiarity, while others argue that the re-centralisation of programmes has empowered ministries at the expense of other stakeholders (Italy, Slovenia, Romania). While France considers the RRF to have promoted some degree of performance-based management, the lack of a partnership-based approach limits regional input, territorial dialogue and coordination for effective governance. In Germany, there are concerns from some *Länder* about moving to a more RRF-based model due to the lack of clarity in the implementation of the RRF and the potential conflict with Germany's constitutional division of responsibilities regarding regional economic development, which is seen as a core aspect of Cohesion Policy.

A study of the **territorial participation in Research and Innovation-RRF funding programmes** in Portugal found that the regional distribution of funding aligns more closely with the European Commission's Horizon 2020 programme than with Cohesion Policy funds (2014-2020).[21] The RRF's R&I funding is managed at a national level within broader national plans. The study highlighted a rural-urban divide in regional participation, with less demand for funding in rural areas compared to more developed urban regions. The authors concluded that a centralised governance model and the nature of the funding calls tend to concentrate resources in developed, urban regions where entities are more likely to apply successfully.

**The audit and control mechanisms under the RRF have been met with mixed responses**. In Italy, robust audit mechanisms are seen as a positive lesson that could enhance Cohesion Policy. However, in Finland and Hungary, RRF controls are perceived as being more burdensome than expected, creating administrative difficulties without reducing the complexity of governance. Estonia has also highlighted the challenges posed by the dual control system for both the RRF and Cohesion Policy, which adds strain to stakeholders involved in implementation (Estonia, Finland, Hungary, Italy). Germany has found that the level and extent of audit and control (influenced by the approach under Cohesion Policy) by the Commission to be (often) burdensome.

**The bureaucratic burden and rigidity of the RRF framework** is a concern in some countries. Finland has found that the rigid performance-based management system is administratively challenging, particularly in verifying achievements. Estonia has noted the rigidity of the RRF, emphasising the need for greater flexibility to respond to unexpected events, such as the pandemic or economic crises. This inflexibility is seen as a significant challenge as policies need to be adaptable to rapidly changing circumstances (Estonia, Finland).

**RRF principles have also helped to reduce the burden of some regulatory requirements in Cohesion Policy**. For instance, many countries have integrated the 'Do no significant harm' principle of the RRF into the Cohesion Policy framework. Moreover, many countries and the Commission consider that they have successfully coordinated Recovery and Resilience Plans with Cohesion Policy, creating synergy between funds and ensuring that investments and reforms are mutually reinforcing, although evidence of the synergies remains vague.

# 4 POLITICAL AND POLICY CONTEXT FOR REFORM

The EU agenda over the past year has been dominated by questions of sustainable military support and security commitments to Ukraine, as well as other forms of financial, humanitarian and diplomatic support and sanctions on Russia. In the economic field, the EU has sought ways to strengthen its industrial and technological base and economic resilience, ensure better connectivity and improved productivity, in pursuit of achieving strategic autonomy. The difficulties in reconciling increasing EU ambitions and objectives and Member States reluctance to approve further EU funding has played out in the mid-term revision of the MFF 2024-27 and discussions on the post-2027 MFF.

## 4.1 Mid-term Revision of the MFF 2024-2027

The gap between Commission ambitions and the funding available is evident from the difficult discussions over the Mid-Term Revision (MTR) of the current MFF for the period 2024-2027. The Commission's proposals in June 2023 for a revised MFF[22] focused on the depletion of EU budgetary resources in dealing with the energy crisis, military support, mobilisation of humanitarian assistance and emergency aid, and the costs of the EU's migration and asylum policy. A key proposal was to create the Strategic Technologies for Europe Platform (STEP) to lever existing EU instruments – including Cohesion Policy funds – for supporting clean-tech, biotech and digitalisation projects.

The MTR was accompanied by a proposal for a Council Regulation increasing the expenditure ceilings in commitment appropriations of just under €21 billion (2018 prices) for Headings 1, 3, 4, 5, 6 and 7 – though not Heading 2 (Cohesion and Values).[23] Two further Regulation proposals cover the establishment of the Ukraine Facility and the STEP.

The European Parliament was supportive of the revision, indeed recommending €10 billion more than the Commission proposal, divided between additional allocations for digital, migration, and defence, and for special instruments.[24] However, several Member States were critical of the Commission proposals, with limited support for additional resources, as well as objections to several proposed forms of revenue generation. Many insisted that the Commission should look at ways of reallocating funding from existing sources. Successive European Council meetings in October and December 2023 agreed only to invite" *the Council to take work forward, with a view to reaching an overall agreement*".

It was not until a Special Meeting of the European Council on 1 February 2024 that agreement was reached,[25] over seven months after publication of the Commission proposal. The European Council agreed to establish a Ukraine Facility – one of only three budget lines to be unchanged in value terms from the Commission's proposal - with a mix of grants, loans and guarantees under three pillars for recovery, reconstruction and technical assistance.

As shown in Table 1,[26] additional funds were also agreed for Migration & border security (Heading 4), Security & defence (Heading 5) and Neighbourhood & the world (Heading 6) as well as for two special instruments - the Solidarity & emergency aid reserve, and the Flexibility instrument. In order to secure agreement, a substantial amount of funding (€10.6 billion) was 'redeployed' from existing programmes: Horizon Europe (-€2.1 billion), EU4Health (-€1.0 billion), directly managed elements of the Cohesion and CAP (-€1.1 billion), Heading 6, mainly NDICI and IPA (-€4.5 billion), the Brexit Adjustment Reserve (-€0.6 billion) and European Globalisation Adjustment Fund (-€1.3 billion).

**Table 1: Revision of the MFF 2024-2027: Commission proposal, EP position & EUCO conclusions[27]**

| | Commitments, €bn, current prices | Current MFF 24-27 | COM proposal €bn | COM proposal % | EP position €bn | EP position % | EUCO conclusions €bn | EUCO conclusions % |
|---|---|---|---|---|---|---|---|---|
| Heading | 1: Single market, innovation & digital | 86.8 | 3.5 | 4.0% | 5.5 | 6.3% | -2.1 | -2.4% |
| | 2: Cohesion & values | 285.1 | 0.0 | 0.0% | 0.0 | 0.0% | -1.4 | -0.5% |
| | 3: Natural resources & environment | 229.9 | 5.0 | 2.2% | 5.0 | 2.2% | -0.7 | -0.3% |
| | 4: Migration & border management | 17.2 | 2.0 | 11.6% | 3.0 | 17.5% | 2.0 | 11.6% |
| | 5: Security & defence | 9.4 | 1.5 | 16.0% | 2.5 | 26.6% | 1.5 | 16.0% |
| | 6: Neighbourhood & the world | 61.2 | 10.5 | 17,2% | 11.5 | 18.8% | 7.6 | 5.1% |
| | 7: European public administration | 49.4 | 1.9 | 3.8% | 1.9 | 3.8% | 0.0 | 0.0% |
| | **Total commitment appropriations** | **738.9** | **24.4** | **2.2%** | **29.4** | **4.0%** | **11.1** | **0.3%** |
| Special instrument | Solidarity & Emergency Aid Reserve | 5.6 | 2.5 | 44.9% | 4.5 | 80.8% | 1.5 | 26.9% |
| | Global. Adj. Fund & Brexit Adj. Res. | 2.0 | 0.0 | 0.0% | 0.0 | 0.0% | -1.9 | -95.0% |
| | Flexibility Instrument | 4.2 | 3.0 | 70.7% | 6.0 | 141.3% | 2.0 | 47.1% |
| | EU Recovery Instrument | | 18.9 | | 18.9 | | 0.0 | |
| | Ukraine Reserve grants | | 17.0 | | 17.0 | | 17.0 | |
| | **Total special instruments** | **11.8** | **41.4** | **350.4%** | **46.4** | **392.7%** | **20.5** | **157.4%** |
| | **TOTAL EU BUDGET** | **750.8** | **65.8** | **8.8%** | **75.8** | **10.1%** | **31.6** | **2.8%** |
| Loans | Ukraine Reserve Loans | | 33.0 | | 33.0 | | 33.0 | |

*Source: adapted from Kowald & Pari (2024)*

A major casualty was the Commission's proposed funding for the Strategic Technologies for Europe Platform (STEP). Rather than approving major new proposed funding, the Council conclusions focused on "*the leveraging of existing EU funding instruments to quickly deploy financial support for investments in critical technologies*" with generous provisions for co-financing and pre-financing.

Lastly, one of the most difficult issues – which has implications for the next MFF – is how to manage the increased cost of servicing the debt on NextGenerationEU borrowing. The Council conclusions adopted a so-called 'cascade mechanism' involving three steps: Step 1 - maximising use of the existing Heading 2 budget line (EU Resilience & Values); Step 2 –

exploiting implementation headroom and reprioritising existing programmes to cover c.50 percent of interest payment overruns; and Step 3 – introduction of a new exceptional instrument *"over and above the MFF ceilings…."limited to address the situation where the borrowing operations for NGEU are still ongoing in evolving market circumstances."*

## 4.2 Towards a new type of MFF 2028-2034

### 4.2.1 Developing a new Strategic Agenda

A recurring theme of European debates, and successive European Council meetings over the past decade has been the need to strengthen EU competitiveness through a comprehensive industrial strategy. A key concern is the relatively weak EU productivity growth compared to other major economies. The EU is trailing in innovation, production and adoption of key technologies,[28] and the innovation gap between the US and EU is growing.[29] A recent slowdown in growth is influenced by geopolitical tensions and disruptions to trade, high energy costs and labour supply problems. Manufacturing employment and output have fallen significantly over the past decade. The combination of pressures for greater energy security (less reliance on imported fossil duels), reindustrialisation and safeguarding supply chains, and importance of EU leadership in key technologies has promoted 'strategic autonomy' in the economic and energy domains, previously discussed more in terms of external action, security and defence.

***"If Europe cannot become more productive, we will be forced to choose. We will not be able to become, at once, a leader in new technologies, a beacon of climate responsibility and an independent player on the world stage. We will not be able to finance our social model. We will have to scale back some, if not all, of our ambitions. This is an existential challenge."***

*Draghi Report, September 2024*

Two recent reports have focused attention on what needs to be done (with a further review of resilience and defence preparedness being prepare by former Finnish President Sauli Niinistö). The most striking language was used by the former chair of the European Central Bank, Mario Draghi, in a report on a competitiveness strategy for Europe (*'The future of European Competitiveness'*) published in September 2024.[30] The report argues that the EU is losing out to competition from other countries, with a growing 'productivity gap' due principally to EU weaknesses in emerging technologies. With a declining population, productivity needs to increase significantly to drive growth, otherwise the European social model will be under threat. Specifically, Draghi proposes three priorities:

- refocusing the EU's collective efforts on **closing the innovation gap** with the US and China, especially in advanced technologies;

- a **joint plan for decarbonisation and competitiveness** spanning industries that produce energy and those that enable decarbonisation such as clean tech and automotives; and

- action to **increase security and reducing dependencies** in areas such as critical raw materials and digital technology.


In terms of policy responses, much of the report focuses on the need for a new industrial strategy to coordinate EU and national policy action focusing on key strategic priorities. While part of the strategy involves reducing regulatory burdens and building a capital market union (see also below), the most eye-catching recommendation of the report is the financing of investment. The report proposes that (p.59): *"to meet the objectives laid out in this report, a minimum annual additional investment of EUR 750 to 800 billion is needed, based on the latest Commission estimates, corresponding to 4.4-4.7% of EU GDP in 2023."*

With respect to the next MFF, the report advocates reallocating EU spending away from Cohesion and the CAP towards 'strategic priorities', a rationalisation of programmes, easier access to funding and incentives for risk-taking. It recommends alignment of Cohesion spending with the industrial strategy: *"The EU will also have to ensure that its cohesion policy remains consistent with a push towards increasing innovation and completing the Single Market."* In this respect it recommends:

- supporting networks such as Innovation Valleys to allow places to participate in sectors with growth prospects;

- new types of investments in cohesion and reforms at the subnational level in many Member States; and

- re-focusing cohesion spending on fields such as education, transport, housing, digital connectivity and planning to increase the attractiveness of cities and regions.

In its more detailed discussion of recommendations,[31] Draghi acknowledges that an "*unmanaged, highly innovative, and dynamic economic environment generates winners and losers, increases inequality, and… leads to a disproportionate concentration of economic activity*". However, it says little more than "*social and geographic cohesion remains an integral component of the model*" with specific policy proposals focusing on social insurance, skills and supporting high-quality jobs.

The second report was the earlier review of the Single Market ('*Much More than a Market*') by former Italian Prime Minister, Enrico Letta published in April 2024.[32] In the context of key EU goals – the green and digital transitions, enlargement and security – the report makes a case for deepening and broadening the Single Market, notably greater integration in the financial, energy, and electronic communications sectors. It makes important proposals for a capital markets union, innovation, competition, state aid and trade, although they can be regarded as somewhat idealistic in some cases, relying on Member States to take the proposals forwards as a coherent package (rather than selectively) and reconciling trade-offs.[33]

Importantly, moreso than Draghi, the Letta report recognises the need for social justice and perceived unequal distribution of benefits among individuals and companies and notes that:


*"If left unaddressed, this perception could erode the public support that is vital to the continued success of the Single Market. From the outset, the European Single Market was designed with an awareness of its potential differential effects on workers, companies and regions and with a clear goal to address them. This is why the cohesion policy was put in place as a fundamental element of the Single Market, not outside of this framework.*

*"To succeed, the Single Market must fulfil its promises of shared prosperity. We must strive to continue securing the free movement of people but also ensure a "freedom to stay"…. High quality jobs must be available for individuals who wish to contribute to the development of their local communities."*

Some of the issues highlighted in the Draghi and Letta reports have already been the subject of policy and legislative steps in the Commission and Council. In June 2023, the Commission published its communication on long-term competitiveness of the EU which identified nine 'drivers' for boosting productivity and economic activity (see Box 3), measured with 17 key performance indicators (KPIs).

These actions were reflected in the European Council's acknowledgment in April 2024[34] of the need for a new European competitiveness deal, with "work to be taken forward decisively and swiftly" on the Single Market, Capital Markets Union, industrial policy, research and innovation, energy, circular economy, and digital transformation. These objectives formed a core part of the Strategic Agenda for the next institutional cycle 2024-2029, agreed by the European Council in June 2024, which included the ambition to "*close our growth, productivity and innovation gaps with international partners and main competitors*".[35]

Two key pieces of legislation were enacted in May 2024 to implement the above objectives relating to strategic autonomy and the green transition, each proposed and enacted within a few months: the Critical Raw Materials Act, which aims at ensuring a diverse, secure, and sustainable supply of critical raw materials for the EU's industry; and the Net Zero Act which aims to increase the industrial deployment of net-zero technologies needed to achieve EU climate goals, exploiting the single market to reinforce Europe's position as a 'leader in industrial green technologies'.

**Box 3: Nine 'drivers' for EU competitiveness**

- **A functioning Single Market** by broadening and deepening it and fostering integration of services;
- **Access to private capital and investment** by deepening the Capital Markets Union and completing the Banking Union, as well as the development of EU tax and financial services regulatory frameworks supportive of businesses;
- **Public investment and infrastructure** by reforming the European economic governance framework;
- **Research and innovation** through tax incentives, public-private partnerships and large-scale projects to de-risk investments in innovation, especially in the key areas of clean technology, digital and biotechnology;
- **Energy** through fast roll-out of renewables, the digitalisation of energy systems and energy storage facilities;
- **Circularity** by fostering the transition towards a more circular economy in the EU;
- **Digitalisation** through broad-based take-up of digital tools across the economy and more support for leadership in key digital technologies such as Artificial Intelligence, Quantum Computing, microelectronics, web 4.0, virtual reality and digital twins, and cybersecurity;
- **Education and skills** by developing and recognising skills as the key to attractive, quality jobs, increasing the participation of women, the young and third country nationals in the labour market, and promoting vocational education and training;
- **Trade and open strategic autonomy** by continuing to open markets for EU companies through deepening ties with allies and trading partners, preserving fair trade principles and addressing risks in a targeted way.

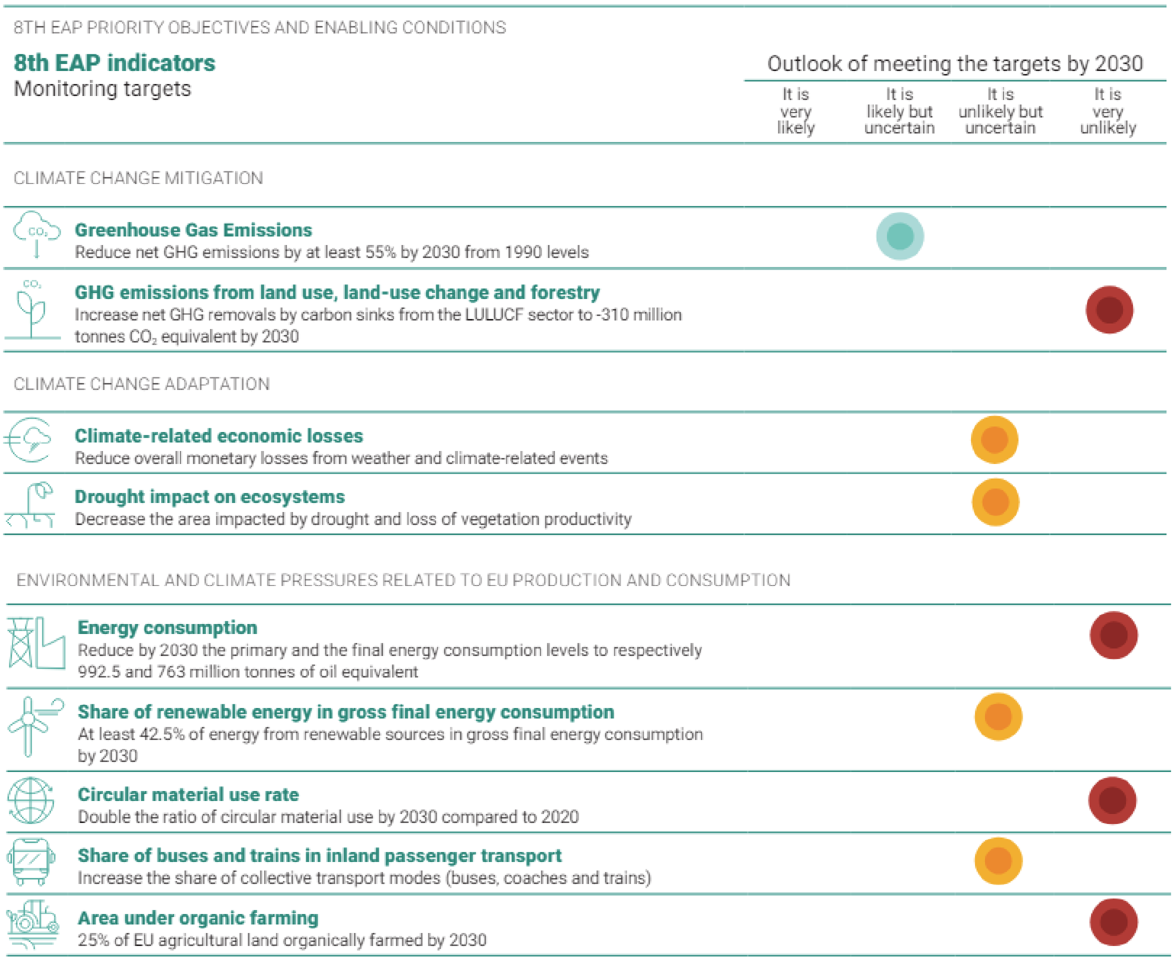
*Source: European Commission (2023)*[36]

### 4.2.2 Green transition

The European Green Deal commits the EU to no net emissions of greenhouse gases by 2050, economic growth decoupled from resource use, and 'no person and no place left behind'. The 'Fit for 2050' legislation sets out binding targets, carbon sequestration, an updated emissions trading system and a Social Climate Fund to support vulnerable citizens and SMEs.[37]

While the latest review of progress considers that climate and environmental targets are "within reach", many planned actions have yet to be implemented.[38] In fact, the December 2023 monitoring report for the 8th Environmental Action Programme indicates that most of the targets are unlikely or very unlikely to be met (see Figure 9).[39] The indicators where most progress have been made (and targets have been or are likely to be met) relate to the reduction of greenhouse gases, the reduction of particulate matter, and some economic indicators (eco-innovation, environmental employment and expenditure).

**Figure 9: Selected monitoring indicators in meeting EU climate and environment targets**




*Source: European Environment Agency (2023)*

Least progress has been made on improving ecosystems, developing a circular economy and reducing pressures related to consumption and production (e.g. energy consumption). While significant progress towards clean energy has been made with a shift to renewable sources (wind, solar power), there is continued (and some increase) in fossil fuel subsidies.[40] Further changes depend on behavioural changes that affect individuals and households (home heating, transportation) and costly decarbonisation by firms with the potential for offshoring and loss of international competitiveness.

The Environmental Action Plan has a target relating to inequalities; measures taken in the EU to protect the environment "should be carried out in a socially fair and inclusive way". However, there is only one target, related to air pollution, and the EAP report notes, drawing on the Third Clean Air Outlook[41], that *"with the past trend indicating no progress in reducing the environmental inequalities associated with air pollution, and in the absence of dedicated policies addressing such environmental inequalities, it is, at present, unlikely but uncertain that* *the EU will make progress in the coming years on reducing environmental inequalities, at least those related to air pollution".*[42]

A recent OECD assessment[43] underlines that further progress will be costly. To meet emissions targets will need higher carbon pricing (potentially five-fold), more stringent regulations (e.g. on vehicle emissions), energy storage improvements, and further integration of European electricity market. The OECD acknowledges that higher carbon emissions "*will also lead to economic costs in terms of real incomes and competitiveness" and may have "potentially important social repercussions*". On the latter point, the OECD is dubious whether a 'fair transition' is currently being enacted under 'just transition plans' and advocates making the next round of JTF funding in the post-2027 MFF being conditional on active labour market support for job transitions.

### *4.2.3 Enlargement*

On 21 June 2024, the Council of the EU approved the Negotiating Frameworks for the accession negotiations with Ukraine and Moldova which were opened at two Accession Conferences on 25 June.[44] Georgia was granted candidate Country status in December 2023 subject to Commission concerns on so-called 'back-sliding' being addressed. Although the Council has reaffirmed its commitment to enlargement, with membership negotiations now opened with seven countries (see Table 2), the individual country reports make clear that "sustained and irreversible reform achievements" have yet to be fulfilled in areas such as the rule of law and fundamental rights, the functioning of democratic institutions, public administration and economic criteria. [45] In the Western Balkans, there are major hurdles with respect to reconciliation and regional stability, with bilateral disputes and legacies of past conflicts unresolved.

**Table 2: Status of enlargement countries – September 2024**

| Candidate Country | Application | Became candidate | Membership negotiations |
|---|---|---|---|
| Albania | Apr-09 | Jun-14 | Jul-22 |
| Bosnia & Herzegovina | Feb-16 | Dec-22 | |
| Georgia | Mar-22 | Dec-23 | |
| Moldova | Mar-22 | Jun-22 | Jun-24 |
| Montenegro | Dec-08 | Dec-10 | Jun-12 |
| North Macedonia | Mar-04 | Dec-05 | Mar-22 |
| Serbia | Dec-08 | Dec-10 | Jun-12 |
| Türkiye | Apr-87 | Dec-99 | Oct-05 |
| Ukraine | Feb-22 | Jun-22 | Jun-24 |
| Kosovo* | Dec-22 | | |

* Potential candidate country.

*Source: European Commission*

As noted above, the EU has established the Ukraine Facility comprising direct financial support for recovery, reconstruction and modernisation, an investment framework to mobilise other funding through guarantees and grants, and accession assistance to help the legal changes and reforms as part of the accession process. Although representing substantial funding, the €17 billion grants and €33 billion loans under the Ukraine Reserve are dwarfed by the December 2023 estimates of the total cost of Ukraine reconstruction and recovery of €430 billion over the next decade, an increase of €60 billion on the €370 billion estimated at the end of 2022.[46]

The EU has also agreed to set up a Reform and Growth Facility for the Western Balkans with €2 billion in grants and €4 billion in loans for 2024-27. Again, this to support EU-related reforms – notably "alignment with the EU's values, laws, rules, standards, policies and practices" and gradual integration in the EU single market and socio-economic convergence with the EU.[47]

The more significant implications of enlargement are the 'pre-enlargement reforms and policy reviews' set out in a Communication from the Commission in March 2024.[48] These are intended to ensure that the rule of law and fundamental rights can be better protected, EU competitiveness is increased, and the next MFF is structured to take account of enlargement-related expenditure. The Communication also identifies difficult questions concerning EU governance in a much larger EU including the greater use of qualified majority voting, more provisions for multi-speed integration and the composition of EU institutions. Unsurprisingly, the European Council was cautious at its June 2024 meeting, agreeing only that these should constitute 'a roadmap for future work' (see Box 4).[49]

**Box 4: EUCO Conclusions on a roadmap for enlargement reforms and reviews, June 2024**

a) The European Council takes note of the Commission's Communication on pre-enlargement reforms and policy reviews and invites it to present by spring 2025 in-depth policy reviews containing operational elements on the following four strands:

i) values, including tools and processes to protect the rule of law;

ii) policies, to ensure inter alia the EU's long-term competitiveness, prosperity and leadership on the global stage and to strengthen its strategic sovereignty;

iii) budget, including in the context of the next negotiations on the Multiannual Financial Framework for which the proposal will be presented by 1 July 2025; and

iv) governance.

On the budgetary implications, it is worth recalling that during the last major enlargement in 2004, there were various adaptation mechanisms, including a cap on receipts for the (then) new Member States as a percentage of GDP – a provision which has continued into the current MFF – and 'interim provisions' for the first MFF period (2004-06) under both Cohesion

Policy and the CAP. The statistical effect of enlargement was explicitly recognised, with limitations on the reductions for any individual Member State.

Research on the budgetary impact can only be speculative given the potential reshaping of the next MFF, the need to service the NextGenEU debt, the pressures on spending and the difficulty of generating new revenue discussed above. Studies conducted on the basis of the existing MFF approach have suggested that financial implications of the accession of Ukraine, Moldova and the Western Balkan countries would be 'manageable' (see Table 3). All of them emphasise the importance of 'control valves' through potential phasing and capping costs.

**Table 3: Studies on the accession cost of enlargement to include Ukraine and W.Balkans**

| | **Basis for estimate** | **Annual accession cost of:** | | | **Annual Cohesion receipts:** | | |
|---|---|---|---|---|---|---|---|
| | | Ukraine | Western Balkans | Ukraine + W. Balkans | Ukraine | Western Balkans | Ukraine + W.Balkans |
| ICDS | 2022 budget | €18.9 bn | | | €9 bn | | |
| Bruegel | 2021-27 MFF | €19 bn | | | €4.6 bn | | |
| Hertie | 2021-27 MFF | €13.2 bn | €5.8 bn | €19 bn | | | |
| Ljubljana | 2014-20 MFF | | €3.6 bn | | | €2.5 bn | |
| EPC | | | €3.76bn | | | | |

*Note: the figures are indicative and not comparable as the studies use different methodologies*

The most basic estimation was undertaken by Michael Emerson in an RKK-ICDS study.[50] This analysed the hypothetical receipts for Ukraine in the 2022 EU budget scaled in relation to the receipts for Poland and Romania. The calculations produced net receipts for Ukraine of €18.9 billion, of which €9 billion would be for Cohesion. The impact on net budget balances would be greatest for Germany, France and Italy among the net payers; Spain would be the only Member State to move from being a net recipient to a net contributor.

The RKK study draws on earlier research by researchers at Ljubljana University simulating the cost to the EU budget of the accession of the Western Balkan countries based on budget flows under the 2014-20 MFF.[51] The cost of enlargement was regarded as having a 'minimal budgetary cost' of €3.6 billion overall, mostly comprising Cohesion receipts for the Western Balkans of €2.5 billion. These figures were used in a subsequent study by the European Policy Centre (EPC) and Centre for European Policy Studies (CEPS) but adjusted for the changes in the 2021-27 MFF giving an enlargement cost to include the Western Balkans of €3.76 billion.[52]

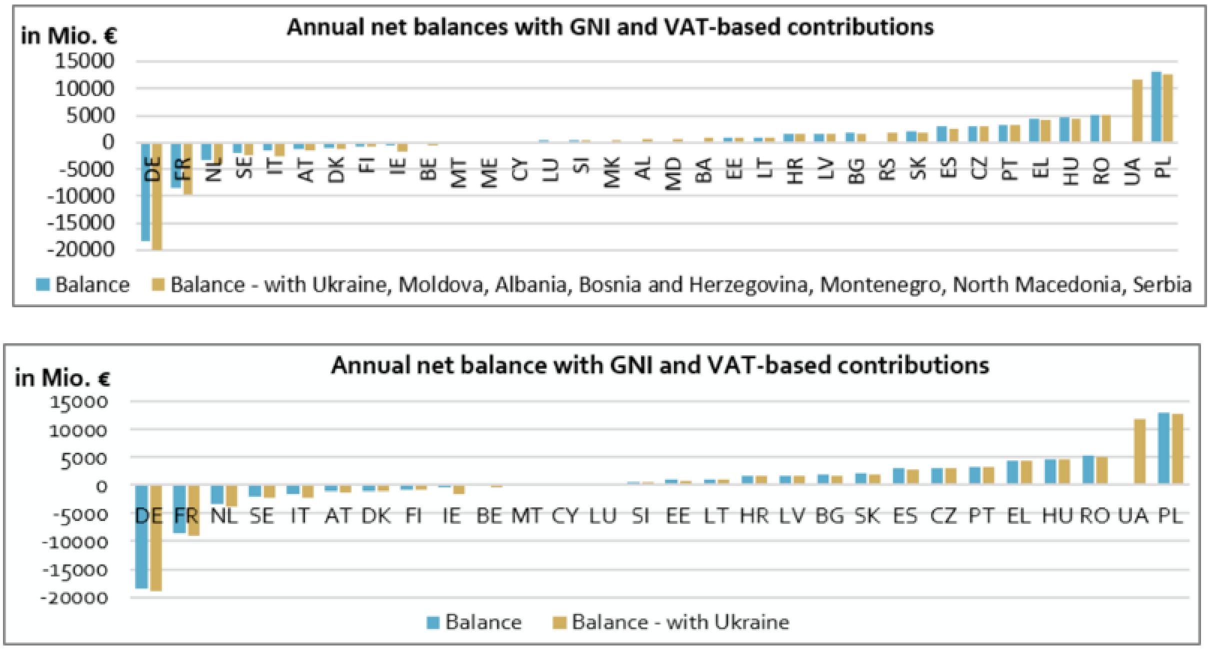
The EPC/CEPS study is interesting because it proposes a staged accession process (see Table 4) for the Western Balkan countries, with a progressive increase in funding allocations leading up to full membership. This picks up on the Commission's 2020 communication which advocated 'stages' in the accession process whereby Candidate Countries would see a graduated increase in EU funding from current IPA support through to the receipts due as EU member. This would 'reward' compliance with the accession criteria and spread out the budgetary impact over time. In their 2023 study, EPC/CEPS propose variants for the allocation of funding for accession.

**Table 4: EPC/CEP staged accession model for the Western Balkans**

| | Stages for receiving EU funding according to accession progress | | |
|---|---|---|---|
| | I: Initial accession | II: Intermediate accession | III: New Member State |
| Variant A | 50% | 75% | 100% |
| Variant B | 40% | 60% | 100% |

More recent research by the Hertie School of Government has calculated hypothetical scenarios of enlargement using the data and MFF rules of 2021. Additional annual spending for the accession of Ukraine was estimated as €13.2 billion, and a further €5.8 billion for the other accession countries. Under both accession scenarios (see Figure 10), the impacts on the net balances would be relatively marginal and no current Member State would move from being a net recipient to becoming net contributor. However, without the application of thresholds to limit impacts, several current Member States would have reductions in their Cohesion Policy allocations ranging from 20-25 percent (Denmark, Cyprus, Malta, France) to between 40 and 50 percent (Germany, Finland).[53]

**Figure 10: Hypothetical impacts on net balances of enlargement**




*Source: Lindner et al (2023)*

The Bruegel study arrives at different figures using a similar baseline scenario.[54] The *net* cost of Ukraine's membership is calculated at €19 billion per year in 2021-27. Ukraine would receive €32 billion over the seven-year period (and €85 billion under the CAP), assuming a cap of 2.3 percent of GDP. Although Bruegel agree that the net payer/beneficiary status of current Member States would hardly change, the existing Member States would receive €24 billion less in Cohesion receipts and some EU regions would shift categories (from Less Developed to Transition Region status and from Transition to More Developed Region status).

A more detailed analysis of the implications for Cohesion allocations has been undertaken by CPMR comparing a non-enlargement scenario to a 'staged enlargement' anticipating that the Western Balkan countries will join first in 2030 during the 2028-2035 MFF, followed by Ukraine, Moldova and Georgia in 2037 during the 2036-42 MFF (see Table 5).[55]

**Table 5: Impact of enlargements on Cohesion Policy allocations (CPMR)**

(a) Impact of enlargement to include Western Balkans

| | No enlargement | 1st Enlargement 2030 |
|---|---|---|
| **TOTAL** | | |
| **Total CP budget** | €357 billion | €351 billion |
| **Av. allocation/capita/year** | €113 € | €107 |
| **Average GDP/capita** | €35,831 | €35,079 |
| **Only regions of current EU MS** | | |
| **No of LD/TR/MD regions** | 79/75/88 | 72/74/96 |
| **Min GDP in % of EU av.** | 27% | 28% |
| **Max GDP in % of EU av.** | 278% | 284% |
| **Median regional GDP in % of EU av.** | 89% | 91% |

(b) Impact of second enlargement to include Ukraine, Moldova and Georgia

| | No enlargement | 2nd Enlargement 2037 |
|---|---|---|
| **TOTAL** | | |
| **Total CP budget** | €325 billion | €345 billion |
| **Av. allocation/capita/year** | €103 | €96 |
| **Average GDP/capita** | €39,312 | €36,675 |
| **Only regions of current EU MS** | | |
| **No of LD/TR/MD regions** | 76/70/96 | 60/67/115 |
| **Min GDP in % of EU av.** | 23% | 25% |
| **Max GDP in % of EU av.** | 252% | 270% |
| **Median regional GDP in % of EU av.** | 90% | 97% |

*Source: Núñez et al (2024)*

- Under the 'first enlargement' in 2030 (Table 5a), the CPMR study calculates that the average allocation per capita per year under Cohesion Policy would fall from €113 per person to €102, and the effect of capping would reduce the EU budget would decrease by €6 billion. There is of course a statistical effect which would affect 15 regions in eight Member States. Poland would experience the biggest losses in budgetary allocations compared to the 'no enlargement' scenario.

- In the 'second enlargement' in 2037 (Table 5b), the impacts would greater. Almost half of the current EU regions would be at or above the EU average. A significant number of EU regions would be affected by the statistical effect, notably the entirety of Portugal and Estonia, but also regions in Germany, Finland, Sweden, France, Spain, Italy and Poland. Given the asymmetric impact, there will be difficult debates on the applicability of the current formula, the role of thresholds and capping, and of course the size of the Cohesion budget.

### 4.2.4 *Which way forward for the MFF?*

Looking forward then to the next MFF, over the past year, the internal discussions within the Commission have focused on how to deliver EU objectives in relation to strategic autonomy, competitiveness, the green transition, defence and other priorities, within a budget framework that is increasingly tight.

In particular, as noted above, the EU is having to manage an almost doubling in costs for servicing its borrowing for NextGenEU because of much higher interest rates since 2022. The Commission's last half-yearly report on the implementation of borrowing, debt management and related lending operations recorded the steep rise in interest rates shows the steep rise in interest rates from 0.14 percent in the second half of 2021 to 3.56 percent in the second half of 2023 (see Table 6).

Repayment of EU borrowing for NextGenEU is due to start in 2028 and continue over a 30-year period until 2058. Research by Bruegel in late 2023 projected yearly interest costs increasing to €10.8 billion in 2023 (under a 'baseline trajectory') with a gradual decrease up to 2058. The total cost of interest payments up to 2058 was estimated at c.€222 billion equivalent to 0.6 percent of average EU GDP over the 2021-58 period.[56]

**Table 6: Cost of NextGenEU funding over time**

| H2 2021 | H1 2022 | H12022 | H1 2023 | H2 2023 |
|---|---|---|---|---|
| 0.14% | 1.16% | 2.51% | 3.20% | 3.56% |

*Source: European Commission (2024)*[57]

While the Commission has been exploring ways in which additional resources for the EU budget might be generated, the experience with the Mid-Term Review of the MFF in 2023-24 demonstrated the resistance of Member States to new resources, whether in the form of top-up national payments or new own sources of revenue for the EU. The Commission has also been discussing how the MFF could be simplified and subject to greater centralised control. Commission thinking has also looked at extending the RRF model – combining investment with reforms – to other EU funding under Cohesion Policy and the CAP.

As Budget Commissioner, Johannes Hahn has been central to these discussions. In a speech to the Annual Budget Conference in April 2024,[58] he drew three lessons for spending, revenue and impact in the next MFF (also outlined in an accompanying DG Budget briefing – see Box 5).

- **Spending.** In making the EU budget 'future proof' and more responsive to unforeseen challenges, the Commissioner advocated more flexibility in the MFF to react quickly. He questioned whether the current tools are appropriate for EU priorities: "*We can…ask ourselves whether we really need the multitude of programmes or whether a different, more streamlined, approach would have more value-added?*"

- **Revenue.** Johannes Hahn stated that *"we should avoid getting stuck in the obsession that the budget cannot exceed 1 % of EU GNI"*. He recommended re-opening the debate on new sources of revenue, including options of innovative financing such as bonds.

- **Impact.** The Commissioner focused on options to increase investments (through financial instruments) and argued that the impact of existing funds could be improved, for example through the simplification and rationalisation of programmes. Specifically, he noted that "*following the example of the RRF, the impact of the EU budget could also be increased through a broader link between EU spending and reforms and investments.*"

**Box 5: DG Budget proposals for improving the next MFF[59]**

- Greater strategic focus on key EU policy priorities (competitiveness and technological sovereignty, defence, climate, demographic change.....);
- more integrated design and governance of the MFF, including rationalising the number of funds/instruments to have a less 'fragmented' budgetary structure, and less 'rigidity' in the EU budget to provide greater flexibility to address emerging needs or priorities; and
- maximising impact – newer and simpler delivery mechanisms to ensure quicker execution, and a greater focus on performance (increasing the effectiveness of the MFF by tying disbursements more to reforms.

In May 2024, Commission President Ursula von der Leyen echoed this direction of travel saying:[60] "*We have overlapping programmes, partially, and redundancies, and . . . we see that sometimes the budget is too slow. If you have more clarity, more simplicity . . . you will have more speed and thus more impact*". Further, she argued that a "*combination of reform and investment . . . led to growth….you see it now in the successful, economic development that you have in Italy, Greece and Portugal. So we should learn lessons,….I'm open to that discussion because I see that the impact of our investment has been strong.*"

Unsurprisingly, this insight into Commission thinking prompted concerns about the future status of Cohesion Policy, the conditions under which it would be disbursed, and particularly whether the policy's funding would be cut and the multi-level governance model weakened. In June, the President of the European Committee of Regions, Vasco Alves Cordeiro, was quoted as saying that:[61] "*Cohesion Policy is at risk…We must be careful about the tendencies to nationalize the most successful policy Europe has to build unity and a common sense of belonging between communities across Europe.*" This followed the submission of a letter by representatives of 11 regions from 15 Member States to the Commission President expressing "concerns about the future of Cohesion Policy" and stressing the importance of cohesion as "a major democratic objective in the current geopolitical context."[62]

The Commission President was more explicit about her priorities in her Political Guidelines 2024-2028[63] accompanying a speech to the European Parliament on 18 July 2024[64] shortly before a vote on her second term. Key themes of the Guidelines and speech were:

- the need for more resources, potentially involving new revenue sources, and an implied extension or replacement for NextGeneration EU;
- a new industrial policy with a European Competitiveness Fund to leverage private investment, support key technologies and strengthen the EU's strategic autonomy, and Clean Industrial Deal to promote green manufacturing;
- adapting competition policy to support companies to scale up; and
- investing more in security and defence, with more common European defence projects, more border security, and building a 'real European defence union'

To simplify and focus the next MFF, the Commission President proposed moving to a policy-based rather than programme-based budget, a national plan for each country setting out both reforms and investment (see Box 6).

**Box 6: Political Guidelines of the Commission President – MFF 2028+**

We need a new approach for a modern and reinforced EU budget.

With this in mind, I will propose a new long-term budget in 2025 which will be:

**more focused** to align with our priorities and objectives, and targeted to where EU action is most needed in a flexible way. I want a policy-based budget, not a programme-based budget.

**simpler in the way it works** – with fewer programmes and a plan for each country linking key reforms with investment, and focusing on our joint priorities, including promoting economic, social and territorial cohesion.

**more impactful,** notably with a European Competitiveness Fund and better use of our budget to leverage further national, private and institutional financing.

Most recently, some insights into how these aspirations might be translated into practice were contained in a leaked paper from DG Budget.[65] It proposed reducing the current seven MFF headings to four:

- Heading 1 (Resilience, cohesion & economic governance) would group together the mainly shared-management funds allocated on the basis of national envelopes, notably the CAP, Cohesion funds, fisheries etc. These would be allocated to Member States via single plan and programme.

- Heading 2 (Strengthening competitiveness, strategic autonomy & values) bringing together many different programmes such as Horizon, space, health, digital, etc, into a single consolidated European Competitiveness Fund.

- Heading 3 (Global Europe) encompassing external programmes.

- Heading 4 (European public administration.

This would imply a radical restructuring of the MFF. Its advantages would be a simplification of the EU budget, focused on key EU priorities, and linking disbursements to reforms. This speaks to the long-standing positions of several of the net payers in the past. The German Finance Minister, for example, was reported as being open to a reorientation of the MFF:[66] "*we need an EU budget which finances the future and doesn't conserve [existing] structures*".

However, other reaction was negative for four reasons.[67] First, it suggests more centralised control of the MFF, its allocation and use by the Commission President, the Secretary-General and DG Budget. Indeed, two German MEPS wrote to the Commission President[68] criticising the DG Budget proposal on the basis that it would be a: "*completely backward-looking renationalisation of the EU budget…. decision-making power would be centralised in the hands of the Council, individual Member States and the Commission. Parliament, regions and other previous decision-makers would be little more than spectators in future budget decisions.*"

Second, it would be more restrictive for Member States, with respect to tougher conditionalities, and particularly the role of regions. Third, the merging of programmes – especially the big policy areas of CAP and Cohesion Policy (see also Section 5.2.3 below) – threatens the amount of funding allocated to these policy areas (and their objectives) which will be challenged by their constituencies. Lastly, the proposed changes would have major implications for implementation which, if not managed well, could have a negative impact on absorption, regularity and performance.

# 5 REFORM DIRECTIONS FOR COHESION POLICY

Against the backdrop of the MFF deliberations, the debate on the future of Cohesion Policy has become more intense within EU institutions/networks and among Member States as they begin to formulate their positions. The contributions have come from research, Commission reports and emerging national and regional perspectives. The following section reviews developments in the evolving debate over the past year.

## 5.1 Research debate: key issues for Cohesion Policy reform

The latest research on the performance of Cohesion Policy was discussed extensively in the High-Level Group (HLG) on the Future of Cohesion Policy (see 5.2.1 below) and 9th Cohesion Report (5.2.2 below).[69] The HLG report summarised the findings on the effectiveness of the policy as follows (p.25-26):

> *"new research generally uncovers positive effects of Cohesion Policy, particularly in terms of economic growth and employment as well as in areas like innovation and transport infrastructure. The extent of the impact of Cohesion Policy depends on several factors, including the quality of local governance, variations in regional conditions, the amount of funding received and the local economic structure…… The evidence also highlights the* ***significant [territorial] differences in Cohesion Policy impacts*** *between Member States and the importance of considering country-specific factors when assessing the policy's success."*

Similar variation has been found in research on how the Cohesion Policy has contributed to dealing with shocks. For all the recessionary crises over the past 30 years, the policy has had significant effects on regional employment growth and sustaining resilience – but again with important regional differences.[70] It is this regional variability that has long been concerning to policymakers and researchers,[71] partly attributed to deficits in the **quality of government**.[72]

In addition, research has increasingly drawn attention to the **variation in effects of the policy at the subregional level**. In particular, there is evidence of EU funding preferentially benefiting stronger municipalities and areas within regions, thereby increasing intra-regional disparities.[73] As one recent study concluded,[74] "*inequality in Europe is to a large extent driven by inequality within regions*" and that while Cohesion Policy is effective in reducing differences between regions, increased intra-regional inequality occurs through benefits that mainly accrues to the employment income of more highly skilled people. This raises the question of whether Cohesion Policy programmes need to pay more to territorial cohesion within regions. As a paper from the Jacques Delors Centre noted recently,[75] the economic benefits of policy intervention are higher in poorer areas; thus, Cohesion Policy should have a "*sharper focus on truly disadvantaged areas, a more precise definition of local economic challenges, improved funding access for sma ll municipalities and companies.*" On the other hand, as a ZEW paper notes,[76] there are differences in the ability of places and areas to maximise the use of Cohesion Policy: *"interventions in the weakest regions are expected to be on average less effective than those in rich ones because it is in the latter that there are the preconditions and the synergies which make policy more impactful"*.

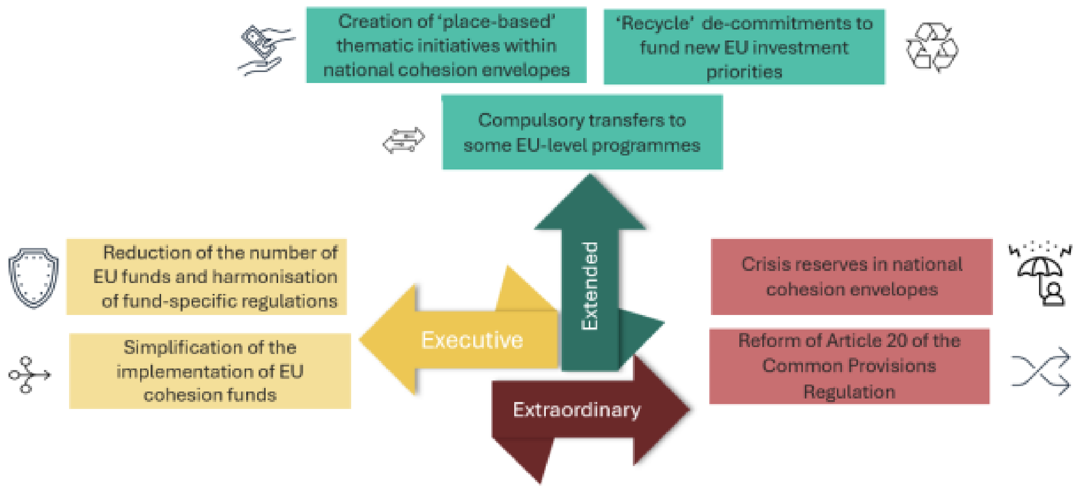
This leads on to the question of the **focus of the policy.** As elaborated in detail in the HLG Report (see below), Cohesion Policy should be central in policy responses to the major EU challenges of competitiveness, green and digital transition, demographic change. Powerful arguments have been put forward for Cohesion Policy to engage with proponets of a 'new industrial policy', going further then the concept of Smart Specialisation Strategies adopted in the 2014-20 and 2021-27 periods; indeed, *"the new industrial policy paradigm can contribute to restoring theoretical salience and political prominence to Cohesion Policy"*.[77] It has also been argued in an EPC paper[78] that the post-2027 Cohesion debate should *"instrumentalise and add value to the EU's Security agenda"* related to food security, energy security, climate security and cybersecurity, all of which are territorially differentiated.

However, the discussion about Cohesion Policy fulfilling EU priorities over successive MFF cycles has been characterised as a progressive 'hyper-Lisbonisation' and 're-renationalisation' process with Cohesion Policy becoming increasingly 'state-centric' with supposedly long-term objectives being driven by short-term and rapidly changing priorities of the EU agenda.[79] As a policy contribution from the Bertelsmann Stiftung argues, the objectives of the policy need to be consolidated making it clear what the role of the policy is and is not. This means being explicit about the possible trade-offs characteristic of all regional policies - between growth and policy effectiveness and territorial cohesion.[80] It also means recognising where it is that Cohesion Policy brings added value to objectives such as managing climate change compared to other forms of intervention.[81]

An interesting contribution to this debate draws on the literature on a 'mission-oriented approach'.[82] It starts from the premise that Cohesion Policy has too many priorities, lacks a strong sense of purpose, has contested achievements, and a complex multi-level governance (MLG) structure. The paper recommends reorganising the thematic objectives of the policy under the EU's'grand societal challenges' which could improve coordination and synergies between thematic areas within and beyond Cohesion Policy, increase the resonance of the policy's purpose with policymakers and the public, promote a more 'transformative orientation' to the policy, and streamline vertical and horizontal MLG relations

Give the multiplicity of objectives, the **need for flexibility** in Cohesion Policy spending has also been highlighted, particularly given the experience of crises and shocks over the past 15 years as well as the ongoing difficulty of setting investment priorities over a seven-year period. The adaptability of Cohesion Policy in response to crises has been widely recognised but is also a potential disadvantage in diverting funds and capacity from the longer term objectives of the policy.[83] A recent paper from CEPS proposes three forms of flexibility to improve both efficiency and effectiveness of the policy in addressing new priorities (see Figure 11).[84]

**Figure 11: Options for enhancing flexibility in Cohesion Policy (CEPS)**




*Source: Rubio et al (2024)*

- *Executive flexibility* gives Member State authorities more scope for implementing their cohesion allocations; rationalising the number of EU funds and simplifying their implementation with common rules reflects some of the discussions currently underway within the Commission.

- *Extraordinary flexibility* might be achieved by broadening the 'temporary measures' article in the CPR or creating reserves in national envelopes, both with light-touch conditionality and explicitly acknolwedging thay Cohesion Policy cannot be regarded as the main response to shocks.

- *Extended flexibility* would involve re-programming funds towards new investment priorities, which may be increasingly required to achieve cohesion objectives given the implications of transitions for regions.

The above discussion about recognising the sub-regional variation in Cohesion Policy interventions links to the question as to whether Cohesion Policy needs to have **a more local orientation**. The evidence base for the performance of integrated territorial development initiatives is still emerging. Community-led local development, for example, under rural development (LEADER) and Structural Funds is clearly regarded as having added value in involving local actors and integrating policy streams, but these types of initiatives have been crticised due to lack of innovation, weak additionality, difficulties with absorption and high administrative costs. Indeed some Member States decided to dicontinue their use in 2021-27 for these reasons.[85]

Many of the recent studies discuss the well-known implementation problems, summarised in the Clingendael Report[86] (see Box 7) published earlier this year. As discussed in Section 2, a particular concern is the efficiency of the policy's implementation, notably is the **slowness of**

**absorption**. The absorption rate in 2014-2020 was lower than in 2007-2013,[87] and the absorption rate in 2021-27 is so far considerably slower than in 2021-27.[88] At the same time, as shown in the ECA figures presented in section 2.3 above, the **error rate is rising** once again. The challenge for policy reform, as the Bertelsmann study notes, is that while Cohesion Policy needs to accelerate absorption:[89] *"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."*

**Box 7: 'Persistent problems' with Cohesion Policy (Clingendael)**

- The most vulnerable regions particularly in the South of the EU have not converged.[9] Cohesion policy is least effective where it is most needed.
- Some countries rely for their public investments for 50-85% on cohesion funds. This indicates that national public investments are crowded out and it also suggests that these member states are less forced to prioritise investments in their national budgets, and that dependence on cohesion funds has been created.
- Much effort is put in ensuring better data to improve accountability. Yet monitoring performance remains highly complicated due to goal congestion.
- Timing complicates policy learning. The midterm review is too early to assess outputs and outcomes. The previous MFF is still in full swing while the next MFF is already being formulated.
- Emphasis in evaluations is on inputs and outputs while impact remains elusive.
- Politicisation of performance data. Member states (national authorities) and the Commission have an interest in reporting that funds are responsibly spent and well executed.
- A select group of national experts is used for national evaluations and are therefore not without interests either. The inward-looking auditing system partly results from the absence of an internal market for evaluation experts.
- Reporting remains problematic given the variety of interests and reliability of the data. The search for better data to support policies has not solved the problem of politicised data.
- ECA has consistently concluded that cohesion policy spending is affected by a material level of error. In recent years, the irregular spending in cohesion has been a significant factor in the "adverse opinion" on EU budget spending as a whole.[10]

*Source: Schout (2024) op. cit.*

One issue raised by the Clingendael Report concerns accountability and the **reliability of evaluation** studies (with accusations of politicisation and lack of independence) and the difficulty of disaggregating effects because of goal congestion. Among the issues raised is whether the system of reporting and evaluation is sufficiently transparent given that much of the accountability mechanisms are the responsibility of authorities at both EU and Member States level which have a vested interest in the policy. While not taking issue with the policy or budgetary importance of Cohesion Policy, the report argues that single loop learning through evaluation has been insufficient to make sufficient improvements to deal with entrenched problems (Ch.6): *"Such learning activities within the system as it is, have reached their limits"*.

This assessment draws on ZEW research sponsored by the German Federal Ministry of Finance. This provides a meta-analysis of EU Cohesion Policy evaluations, comparing the tone with academic impact studies. While the evaluations are broadly positive, the authors argue that this may be partly due to market concentration and the involvement of managing authorities in the evaluation process. Additionally, the study finds that many evaluations have little impact on policy. [90]

Lastly, it is worth noting the findings of recent research that the major transfers to net recipient countries also benefit the net contributors:[91] indeed, for "*some of these Member States, **territorial spillovers** constitute the main source of benefits from cohesion policy.*" These spillovers are both local to the target regions of Cohesion Policy (neighbouring regions) as well as internationally through trade effects.[92] Highlighted during the last Polish EU Presidency in 2011 and the run-up to the 2014-20 reforms, these impacts have been surprisingly little discussed in reform debates, although for some commentators these effects provide additional justification for redirecting spending away from richer Member States.[93]

## 5.2 Setting the agenda for Cohesion Policy reform

Taking account of such issues. the agenda for Cohesion Policy reform has started to emerge with the publication of the High-Level Group on the Future of Cohesion Policy, and the Ninth Cohesion Report, both discussed at the 9th Cohesion Forum.

### 5.2.1 High-Level Group on the Future of Cohesion Policy

As previously outlined,[94] the High-Level Group on the Future of Cohesion Policy was set up by former Commissioner for Regional Policy, Elisa Ferreira, to provide an independent perspective on the challenges facing the policy and how it should develop. In a process managed by DG REGIO and DG EMPL, the 18 members of the Group met regularly between January 2023 and February 2024, chaired by Professor Andrés Rodriguez-Pose. The Group discussed nine themes (see Box 8) on the basis of presentations by academic experts and EU institutions.

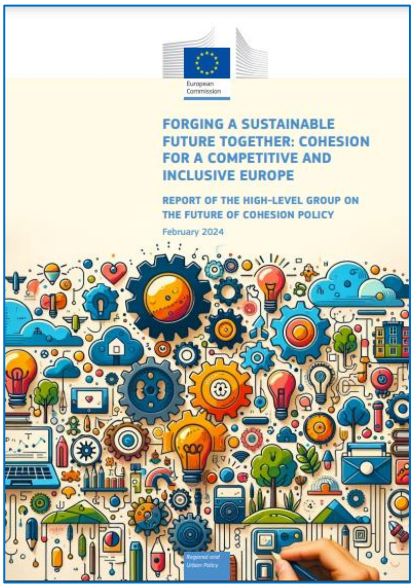
**Box 8: Themes discussed by the High-Level Group on the Future of Cohesion Policy**

1. Developing the European Growth Model
2. Enhancing resilience of regions against emerging challenges
3. Addressing different developments of European regions
4. Role of place-based policies and development strategies
5. Reinforcing territorial cooperation
6. European semester, reforms and synergies with other EU policies
7. Increasing policy effectiveness and reassessment of conditionalities
8. Revisiting the delivery mechanisms taking into account priorities
9. Enhancing capacity to respond to sudden shocks and crises

The report of the High-Level Group was published in February 2024[95] and has been presented and discussed extensively. Its analysis and recommendations were structured around four sets of questions.

1. **Why do we need Cohesion Policy now more than ever?** The starting point for the Report is the polarisation of economic development in the EU with growth increasingly concentrated in a few large urban areas. Many regions, especially in Western Europe are falling into so-called ‘development traps’ in middle-income as well as low-income regions. As stagnation increases, so does popular discontent. Further, there are serious pockets of lack of opportunities and barriers to inclusion. These fundamentally affect vulnerable groups (women, children, young and elderly people, people with disabilities, persons with low education, migrants, Roma people and other ethnic and religious minorities). The population at risk of poverty or social exclusion is often geographically concentrated in vulnerable regions but also in Europe’s most dynamic cities. Looking forward, the green transition will ultimately deliver considerable benefits, but many EU regions are highly vulnerable to the transition itself. Most of these regions are either less developed or already vulnerable, and a disregard for its impact could derail the green transition.

2. **What should Cohesion Policy do?** The Report argues that cohesion is critical to achieving EU objectives and EU policymakers need to recognise territorial dimension in achieving these objectives. Policy should place greater focus on exploiting untapped economic potential – with a more dynamic approach to intervention and focusing on focus on the main structural challenges – low development, long-term economic stagnation, lack of opportunities. All regions should remain eligible, but less-developed regions should continue to be the main focus and policy should also but target regions in development traps. More attention needs to be paid to institutional quality as differences undermine policy effectiveness.




3. **How should Cohesion Policy change?** The HLG sees the need for Cohesion Policy to become more place-based, focusing on local potential. Strategies should focus on future-oriented, transformative investments sensitive to the unique strengths, challenges and needs of regions. They should aim to drive regional and local transformation, promoting innovation and diversification opportunities and allowing regions to ‘reinvent’ themselves. For this approach to succeed, institutional capability needs to be upgraded together with more performance-based intervention and meaningful simplification. The report stresses the need for more outward looking strategies by enhancing inter-regional links and collaboration.

4. **With whom should Cohesion Policy collaborate?** An important recommendation of the HLG report is that support under Cohesion Policy needs to be integrated with broader EU development goals. It was noted that *"cohesion is too important to be left to Cohesion Policy alone."* The report recommended a strategic framework uniting competitiveness and cohesion and other relevant policies as part of the European Semester process.

### *5.2.2 Ninth Cohesion Report*

Soon after the publication of the HLG report, the latest analysis of the state of economic and social cohesion in the EU was published by DG Regio in the Ninth Cohesion Report (9CR)[96] and debated at the subsequent Cohesion Forum. It highlighted the achievements of the policy, notably long-term convergence, contribution to the Single Market, building capacity and providing an effective and quick EU response to supporting investment and employment during recent crises. The data also show clearly the unevenness of economic and social development (see Figure 12), with persistent socio-economic disparities, especially in the south of Europe, spatial polarisation in many Member States (disadvantaging rural areas in particular, and some regions facing economic stagnation or decline, with the risk of falling into a development trap. Structural and emerging challenges (green and digital transitions, demographic change) could widen territorial disparities. Managing these transitions depends on strengthening innovation, ecosystems addressing deficits in skills and education, and better governance and institutions.

In addition to taking stock of patterns and trends in regional development, the 9CR reflected on ways in which the effectiveness of Cohesion Policy could be improved. Potential areas for reform include:

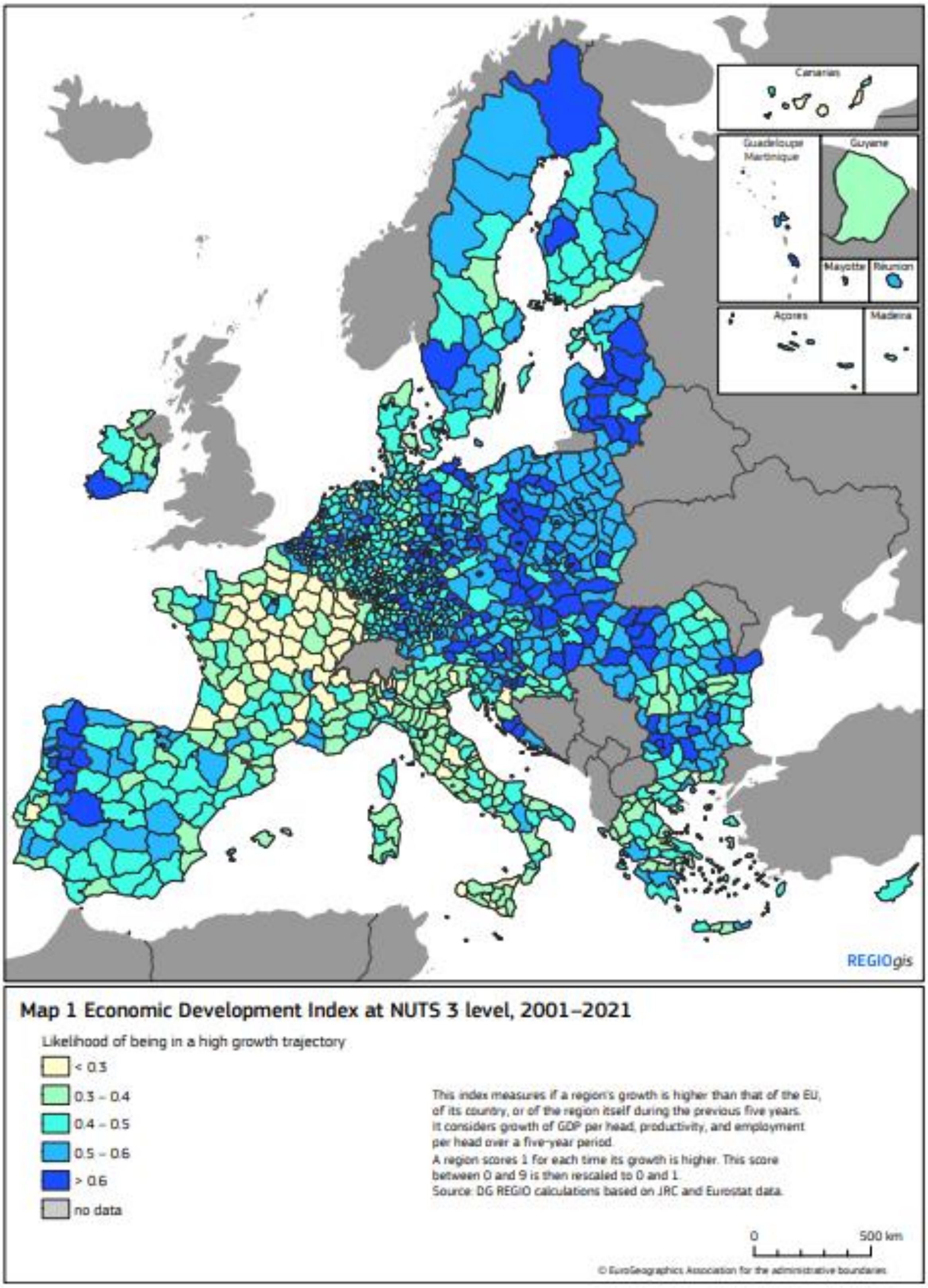
a) taking a pro-active approach to addressing development problems to forestall regions getting caught in **development traps**;

b) a more place-based approach, **tailoring intervention to the specific development needs** of territories' development needs and their ability manage the challenges of the green and digital transitions;

c) promoting more balanced (polycentric) development, especially by supporting the **role of small towns and medium-sized cities;**

d) enhancing the **role of subnational authorities** to promote local partnership and bottom-up territorial development;

**Figure 12: Economic development index for the EU, 2021-2027**



e) a more ambitious and comprehensive approach to addressing **weaknesses in institutional capacity;**

f) better coherence and **coordination with national policies** to improve the leverage of interventions;

g) further simplification for administrations and beneficiaries, potentially moving to a more **performance-based delivery model** and drawing lessons from the RRF;

h) **combining reforms and investments** to incentivise implementation of long-standing reform needs and removing obstacles to regional development; and

i) exploiting the flexibility of the policy to respond to unforeseen circumstances but ensuring that the main focus remains on the **achievement of long-term structural objectives**.

### *5.2.3 Cohesion Policy and the mission of the new Commission*

How these recommendations are taken forward depends on the new Commission. Interestingly, in view of the unease generated by her perceived lack of support for Cohesion Policy in the past, the Commission President's speech following approval of her second term included reference to the importance of cohesion. Strengthening society, she said: *"means ensuring that every region, in every part of Europe, is supported. No one is left behind. I am committed to a strong cohesion policy, designed together with regions and local authorities."*

This was amplified in the Political Guidelines (see Box 9), which notably referred to a 'cohesion and growth policy' and echoed the commitment in the Latta Report of people having a 'right to stay'. The role of Cohesion Policy in tackling the challenges of demographic change and investing in affordable housing was also mentioned.

The widely discussed possibility of an institutional downgrading of Cohesion Policy, including threats to having a specific Commissioner and Directorate-General for the policy did not materialise in the announcement of the new Commission on 17 September 2024. The mandates have yet to be approved by the European Parliament, but for the first time Cohesion Policy is in the portfolio of a (designate) Executive Vice-President of the Commission, Raffaele Fitto, who has a political background in Italian regional policy as Minister for Territorial Cohesion, Minister for Regional Affairs and President of the Apulia region.[97]

**Box 9: Commission President's Political Guidelines and Cohesion Policy**

| |
|---|
| **Regions will remain at the centre of our work.**<br><br>We need a strengthened cohesion and growth policy with regions at the centre. It must be designed in partnership with national, regional and local authorities. We will address regional and social disparities and ensure all citizens have an effective right to stay in the place they call home.<br><br>As part of this, we will need to mobilise reforms and investments to help build what a community needs to thrive: public services and private activities, education and skills, transport and digital connectivity.<br><br>And we will take into account the specific economic and social challenges facing islands, such as housing, transport, water and waste management. We will also continue to address challenges facing outermost regions. |

Further, under the approach taken by the Commission President to 'strategic overlap' in the allocation of responsibilities, Raffaele Fitto may have some coordination responsibilities beyond Cohesion to cover the portfolios of the Commissioners for Agriculture & Food, Fisheries & Oceans, Sustainable Transport & Tourism, and (in part) Enlargement.[98] Although yet to be confirmed, this has the potential to facilitate the greater coherence and alignment of rules in EU investment policies desired by the Commission President and DG Budget. However, an alternative view is that it may create bottlenecks; reacting to the new structure, the EPC felt that[99] "*the portfolio of the Executive Vice President for Cohesion and Reforms does not seem well integrated into the overall structure, and does not appear well adapted to the new challenges the EU faces*".

The 'mission letter' given by the Commission President to Vice-President-designate Raffaele Fitto[100] is broadly similar to that issued to the outgoing Commissioner Elisa Ferreira[101] but is notable for some significant differences (see Table 7).

- The Fitto letter is more specific about the type of Cohesion Policy anticipated particularly the recognition that intervention needs to be **targeted and place-based**, repeating the Letta phraseology of citizens having *"a right to stay in the place they called home"*.

- The policy should **support all regions**. A wider range of region-specific priorities are mentioned including an ambitious agenda for cities, islands as well as outermost regions, and support for eastern border regions affected by the Russian invasion of Ukraine.

- It expects a 'modernised **cohesion and growth** policy, with alignment to EU priorities and mobilising reforms together with investment. The need to ensure successful implementation of NextGenerationEU (delivery of national RRPs) is mentioned.

Recognising the omission of subnational engagement in the design of the RRF, the Fitto letter requests that he pays "*particular attention to dialogue with stakeholders and the involvement of regional and local authorities.*"

- The wider responsibility of the Commissioner-designate for the CAP is referenced in the reference to rural areas and strengthening the **competitiveness, resilience and sustainability of the food and farming sectors**.

**Table 7: Comparison of mission letters for Elisa Ferreira and Raffaele Fito[1]**

| Mission Letters | Elisa Ferreira (2019-2024) | Raffaele Fitto (2024-2029 |
|---|---|---|
| **Mission** | Invest and support regions/people most affected by transitions, leaving **no-one behind** | Promote economic, social and territorial cohesion; achieve upward economic and social convergence.<br>Tackle regional disparities with tailor-made solutions to regional and local challenges.<br>All citizens have an effective **right to stay.** |
| **Specific regions** | Sustainable development of cities & urban areas.<br>Outermost regions. | Ambitious policy agenda for cities.<br>Islands.<br>Outermost regions.<br>Facilitate Cyprus unification<br>Eastern border regions |
| **Strategic issues** | Agree new legislative framework for simpler and more high-quality investment. | Strengthened, modernised **cohesion and growth policy** aligned to wider EU priorities, more focused, simpler and impactful. |
| **Operational issues** | Timely launch of new programmes.<br>Appropriate controls on expenditure.<br>Launch of Just Transition Fund. | Effective implementation of ERDF, CF and JTF.<br>Increase visibility of EU projects. |
| **Policy contributions** | Reform Support Programme.<br>Budgetary Instrument for Convergence & Competitiveness.<br>Strengthen competitiveness of | European Affordable Housing Plan.<br>New European Bauhaus.<br>Climate Adaptation Plan.<br>European Water Resilience Strategy.<br>Pre-enlargement policy reviews |
| **Cohesion and reforms** | Supporting structural reforms | Support reforms and investments.<br>Delivery of reforms & investments in NRRPs. |

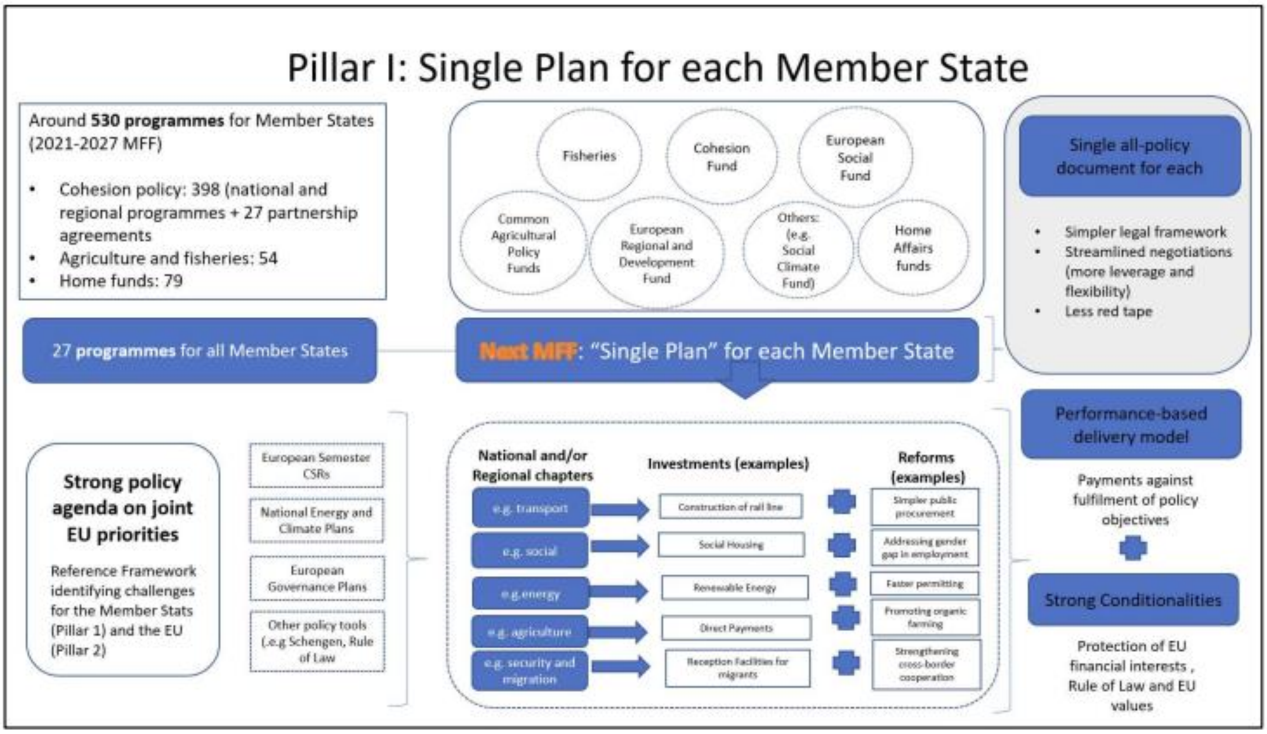
Notwithstanding the Commission President's commitment to the importance of cohesion, and the above mission letter, a key question is how the Commission President's ambitions for the MFF (see Section 4.2.4) would affect the policy approach to Cohesion. The leaked DG Budget paper provides some indication of the thinking underway (see Figure 13). Under the proposed 'Pillar I', encompassing all shared management funds, the paper speculates about a possible single plan – and single funding programme – for each Member State, with sectoral and/or regional chapters. The anticipated advantages would include a stronger focus on EU priorities, greater coordination, streamlined negotiations, less administrative complexity, more flexibility

[1] The nominations, structure and portfolios of the proposed College of Commissioners for 2024-2029 have yet to be confirmed by the European Parliament.

and adaptability to change. Importantly, the paper notes two major implications for the role of regions:

- a single national programme would imply "no direct contacts or negotiations between the European Commission and the regions; and
- regions would be "reduced to a role from being managing authorities to intermediate bodies or even simply beneficiaries".

**Figure 13: DG Budget ideas for a revised MFF – Pillar 1: Shared Management Funds**




*Source: DG Budget (mimeo)*

### *5.2.4 Europe closer to citizens: a new Commission commitment?*

The mission letters to all Commissioners call for the institution "to *be more present on the ground, more often and in more regions" and highlights the need for "a new era of dialogue with citizens and stakeholders… embedding citizen participation in our work…to instil a true and lasting culture of participative democracy*." The mission letter to Commission-designate for Cohesion and Reforms highlights that "*European cohesion is about bringing Europe closer to citizens and bring Europeans closer to each other*".

The 9th Cohesion Report was bolder by recommending involving citizens in decision-making: "people on the ground have more knowledge of the exact needs of their territory. As such they must be involved in decision and policy making. This inclusion and empowerment can also serve to counteract rising political discontent and distrust of public authorities.'[102] However, the report stops short of offering concrete policy solutions or steps to realise this vision.

## 5.3 Cohesion Policy and Council debate

Turning now to the perspectives of Member States, in November 2023 the General Affairs Council held its regular autumn debate on cohesion.[103] Most of the conclusions were a reaffirmation of the importance of cohesion, the need for an all-region, place-based approach, the value of multilevel governance and INTERREG, and the importance of taking into account the needs of individual categories of regions. Distinctive issues included in the recommendations were:

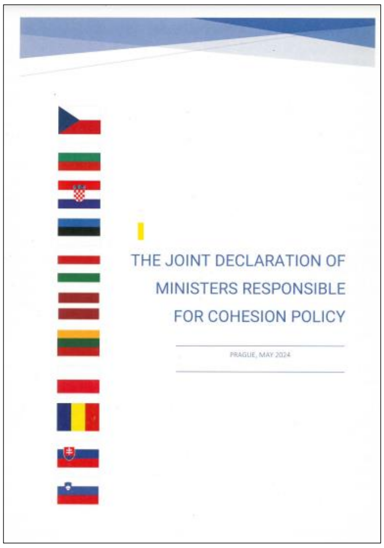
- more targeted, adaptable support for less-developed regions to deal with the multiple crises;
- regional strategies should specifically seek to avoid development traps involving slow or negative growth;
- the need to study how to measure and evaluate the specific needs of the different territories;
- the Cohesion Policy regulatory framework should be able to adapt to new developments and unexpected events, while recognising that it is not a 'crisis instrument';
- the need to have options for the policy to address new challenges such as demographic change, migration, climate change, green and digital transition;
- a more strategic approach to ensuring consistency between Cohesion Policy and other EU policies and initiatives – from their design phase, i.e. not just during implementation;
- awareness of doing no harm to cohesion in all Union policies and initiatives, including the use of Territorial Impact Assessment in new legislative proposals.

Of particular significance in the context of discussions on the next MFF were the Council's recognition of the value of reforms linked to investment and encouragement for moves towards (para 11): "*a more agile, effective and focused cohesion policy with clear priorities, and on further strengthening the orientation of the investments towards results, as well as* ***improving the link between cohesion policy and the European Semester".*** However, the General Affairs Council (GAC) was cautious about application of the RRF model saying only that the results of audit and evaluation of the performance of the RRF is required in order to draw lessons.

Several of the points were reiterated in the Informal Ministerial Meeting in Mons under the Belgian Presidency,[104] reaffirming the importance of the policy at a time of 'growing regional inequality and heightened social tensions. Expressing concern that successive crises has shifted the policy "from its founding objectives and raison d'être", the meeting again emphasised the need to "**adapt cohesion policy so that it takes into account the specific realities of each region**" in dealing with shocks and transitions.

The subsequent General Affairs Council (Cohesion) in June 2024 was invited by the Belgian Presidency to reflect on the link between Cohesion Policy and the new strategic agenda for 2024- 2029 and to agree conclusions on the 9th Cohesion Report (see below). While acknowledging that Cohesion Policy "is delivering" in terms of supporting convergence and strengthening the Single Market, the GAC expressed concern at structural and emerging challenges (green and digital transition, climate change, migration, increased global competition geopolitical instability, demographic change) widening disparities, It emphasised that "*these challenges and concerns need to be addressed in an inclusive and fair way, ensuring that **no one is left behind***". The Commission was invited to consider appropriate ways for the post-2027 Cohesion Policy to provide "***tailored support for regions** to successfully manage those challenges*".

More broadly, the Commission was asked to develop reform proposals that build on the distinctive characteristics of the policy – shared management, multi-level governance, place-based approach and partnership principle – while recognising the different situation of regions and their varying development paths in addressing transformations. The GAC were open to learning from other instruments to make the policy more performance-based and efficient, but as in the previous GAC stressed that any decisions need to be based on "*robust policy evaluations and taking into account their operational implications in particular for audit and control systems*".


THE JOINT DECLARATION OF MINISTERS RESPONSIBLE FOR COHESION POLICY

PRAGUE, MAY 2024

The June GAC on Cohesion also took note of a Joint Declaration of Ministers responsible for Cohesion Policy from 11 countries at a meeting convened under the Czech Presidency of the Visegrad Group in May 2024.[105] Emphasising that "cohesion is the engine of the European integration", the Declaration argued for Cohesion Policy retaining its primacy as the main investment policy of the EU, that shared management is the cornerstone of the policy, and need to strengthen the bottom-up approach, building administrative capacity, and making further use of smart and sustainable integrated territorial development. The ministers also supported the link between investment and structural reforms, a more flexible approach to thematic concentration, more targeting on less-developed and particular categories of regions, special support for just transition and demographic challenges. With respect to the next MFF, the Declaration highlighted that *"in order to ensure continuity of* *support among budgetary periods, the* ***individual Member States' allocations should be kept as stable as possible***". Looking beyond Cohesion Policy, ministers also advocated the "*maximum alignment of rules and application of synergies and complementarities at all levels*".

Looking forward, the next six months will see several major debates. The Hungarian Presidency is placing a strong emphasis on improving European competitiveness, integrating this objective into all policies including adoption of a New European Competitiveness Deal. Alongside enlargement, defence, migration, agriculture and demographic challenges, HU PRES is also prioritising 'shaping the future of EU Cohesion Policy' (see Box 10), noting that "a well-structured and balanced cohesion policy is the key instrument in this regard" to address development gaps.[106] The first HU PRES discussion of role of Cohesion Policy in addressing demographic change (and scope to improve its capacity) was held on 5-6 September in Budapest, with conclusions expected to assess the impact on human capital and competitiveness.[107]

**Box 10: Hungarian Presidency priorities: a strategic debate on the future of EU Cohesion Policy**

For decades, cohesion policy, as the main investment policy of the EU, has proven its success and its contribution to increasing the Union's competitiveness, strengthening its resilience, ensuring the well-functioning of the Single Market, and achieving common EU objectives. The aim of the Presidency is to encourage reflection on the future of cohesion policy, and to facilitate a strategic debate at the European Council. Additionally, the Hungarian Presidency plans to adopt Council conclusions on the necessary and prominent role of cohesion policy in effectively addressing demographic challenges.

## 5.4 European Parliament: a long-term strategy to support transitions

The European Parliament's Committee on Regional Development (REGI) has published several own-initiative reports and resolutions over the past two years with implications for the future of Cohesion Policy. In December 2023, the Committee reiterated that Cohesion Policy should *be "a long-term investment strategy which should equip regions to address technological, green, digital, social and automotive transitions"*. [108]

Specifically, in this and other reports, the REGI Committee has made specific recommendations:

- inclusion of a specific policy objective on **industrial transition** within the EU cohesion policy beyond 2027, with support for regions dependent on sectors undergoing transformation such as the automotive sector;
- **creation of the Just Transition Fund II (JTF II)** in the post-2027 programming period at NUTS 3 level, with a revised allocation method and full integration into the CPR;[109]

- **reintegration of the European agricultural fund for rural development** into the strategic framework of the CPR;[110]

- creating specific instruments for the **decarbonisation of the transport sector** to support the sectors of semiconductors, batteries and components that are necessary for electric motors, autonomous driving, digitalisation and connectivity;

- further **simplification and flexibilisation** efforts, a streamlining of cohesion policy funds and a modernisation of the delivery model of cohesion policy;[111]

- strengthening the **place-based approach** of the policy and enhancement of the role of regional and local authorities in its implementation; [112]

- additional attention to the **territories with geographical specificities**, especially those which are isolated and highly dependent on fossil fuels or specific industries; and

- implementation of a European **strategy for islands** and for EU policies to take account of the specific characteristics of islands and of their sea basins, including the creation of an Islands Pact.[113]

## 5.5 European Committee of the Regions: new challenges necessitate reform

The Committee of the Regions (CoR) has continued to be pro-active in the reform debates, both by representing the views of regional members (for example the letter by CoR President to the Commission President – section 4.2.4), and mobilising and coordinating actors and networks through the 'Cohesion Alliance' and Joint Declaration.[114]

Two draft opinions were discussed and adopted at the COTER meeting on 17 September (scheduled for plenary adoption by the COR on 20 November) relating to the proposals for new design and delivery mechanisms in the MFF post-2027[115] and specifically on a 'renewed' Cohesion Policy.[116]

On the MFF, the COTER agrees on the need for a more policy-focused EU budget with rationalisation of initiatives. It argues that strengthening cohesion should be a task for the entire EU budget (through operationalisation of the 'do no significant harm' principle – including via the European Semester)and territorial impact assessment), opposes the centralisation of EU funding programmes and advocates a more binding partnership principle, recommends better synergies among fewer funds, and wants more flexible MFF. COTER is, though, cautious about more results-based financial management and simplification and stresses that more extensive use of Financing Not Linked to Costs has to take account of concerns regarding the measurability of milestones and targets.

The Draft Opinion on Cohesion Policy (see Box 11) elaborated on these points, beginning with a recognition that *"that a new combination of challenges facing Europe and its territories necessitates a reform of the policy, whose success in tackling regional disparities will be contingent upon reinforcing its objectives and principles rather than diluting or altering them*". In particular, it stressed that addressing major challenges – competitiveness, climate change, strategic autonomy, digital transformation – needs to consider the opportunities and needs of all regions. Also, it warned against overloading Cohesion Policy and a 'congestion of priorities' and that the ability of regions to benefit from the transitions depends on strengthening the institutional capacities of regional and local governments.

**Box 11: Key priorities of the COTER Draft Opinion, September 2024**

1. **Addressing Structural and Cyclical Challenges**: need to tackle major challenges such as enlargement, geopolitical instability, re-industrialization, and the digital, demographic, and ecological transitions. These efforts should strengthen economic, social, and territorial cohesion across the EU.
2. **Reorganising the EU Budget**: a significant reorganization of the EU budget based on clear EU objectives and policy goals is needed to ensure existing policies and programs to align with new priorities with the application of a **'necessity test'.**
3. **Reducing Fragmentation of Funds**: all funds contributing to just transition strategies should be based on a common integrated and strategic approach, with a place-based focus.
4. **Principles of Better Law-Making and Active Subsidiarity**: restructuring of the MFF should be grounded in the principles of better law-making, active subsidiarity, partnership, and multilevel governance.
5. **Do No Harm to Cohesion**: This principle should be embedded in all policies and funds to ensure that no region is left behind, particularly those struggling with the green transition.
6. **Involvement of Local and Regional Authorities (LRAs)**: LRAs (European Partnership Pact) should be involved throughout the preparation, programming, implementation, delivery, and evaluation of all EU programmes
7. **Territorial Impact Assessments (TIAs)**: these are crucial for implementing the "do no harm to cohesion" principle in the identification and amendment of existing funds and instruments,
8. **Consolidating EU Funds and Instruments**: fewer, more multifunctional funds would create synergies and reduce the complexity of managing multiple programs with overlapping objectives.
9. **Flexible MFF for Crisis Response**: including a **larger emergency fund and flexibility reserve** package within the MFF structure
10. **Simplification and Results-Based Management**: use of the lead fund approach and Finance Not Linked to Costs (FNLC) methodology to reduce red tape and ensure faster expenditure, particularly for SMEs.

*Source: ECOR (2024)[117], summarised in Pazos Vidal (2024)* [118]

The CoR has also fed into the debate on Cohesion Policy reform via the Fit for Future Platform,[119] an expert group comprising representative of Member States with a mission *"to assist the European Commission in simplifying existing EU laws, making them more modern, future-proof, and responsive to emerging trends, technologies, and societal changes."* Two of the recently published 'platform opinions'[120] contribute to the mid-term evaluation of the ERDF, Cohesion Fund, JTF and ESF+. Both draw on CoR Opinions and consultations with the CoR network of regional hubs (RegHubs) in the early part of 2024.

The two evaluations focus on the complexity of the legislative framework for Cohesion Policy and the welcome but insufficient progress made with simplification in areas such as use of e-cohesion, implementation of a risk-based approach in audit, reporting requirements. The principles of partnership and multi-level governance are not felt to be fully applied by local and regional authorities. While SCOs are being used more widely, the option of FNLC is underutilised due to complexity and perceived audit risks. The recommendations, framed as suggestions are listed in Box 12.

**Box 12: Suggestions for the mid-term evaluation of ERDF, CF, JTF and ESF+**

1. Address fragmentation of funds
2. Increase flexibility as regards resource allocations, while preserving the long-term economic development objectives of cohesion policy
3. Support more extended use of simplified costs options and financing not linked to costs
4. Support broader roll-out of e-cohesion
5. Further reduce the audit burden on cohesion policy stakeholders
6. Reduce the burden of reporting requirements, while increasing their relevance in respect of communication, transparency and accountability
7. Further strengthen the application of the partnership principle and MultiLevel Governance
8. Increase communication, visibility and transparency of programmes and investments (for ERDF. CF and JTF)
9. Review and simplify enabling conditions
10. Lead a collective and concerted effort on simplification

*Source: Fit4Future Platform Opinions*

## 5.6 Member State perspectives on reform

As yet, Member States have not stated formal positions on the reform of Cohesion Policy. As in the past, these will depend on the position of governments on their priorities for the reform and the EU budget, which are currently being developed. Some indication of their assessment of Cohesion Policy can be gained from EoRPA research on the perceived added value of the policy and their reactions to the HLG (and 9CR) reports.

### 5.6.1 *Priorities for reform and the EU budget*

Member States are at different stages in developing their positions on the future of the EU budget and Cohesion Policy reform (see Table 8). There are few formal position papers published at national level, and some countries will adopt a reactive approach awaiting formal proposals from the European Commission. However, many countries have initiated informal discussions or consultations with stakeholders throughout 2023-24.

A review of the emerging debate within Member States suggests division over the size of the budget and flexibility, with differing views on how to balance discipline with expanding financial ambition to meet new and ongoing challenges. There is support for maintaining core cohesion objectives and the long-term structural focus, with a focus on green and digital transitions, as well as managing geopolitical and demographic pressures. Simplifying administrative processes and ensuring decentralised governance are key priorities in the debates.

**Budget size and flexibility.** Flexibility within the EU budget is seen as important to address both emerging and existing challenges. However, views are divided on the size of the budget reflecting net beneficiary/contributor status. Maintaining budget discipline while avoiding significant increases in national contributions is emphasised by Finland, including a reduced share of the budget to Cohesion Policy to support new priorities (Box 13). By contrast, other countries argue that an increase in the financial ambition of the MFF is necessary to support new priorities in defence, climate transition, and cooperation with Ukraine, ensuring adequate funding for key challenges (e.g. Greece, Hungary, Poland). Cohesion Policy funding should be preserved and expanded in the future MFF, particularly to address inflationary pressures and demographic challenges (Germany - *Bundesrat,* Hungary). The German *Länder* argue that budgetary flexibility should not undermine strategic, long-term programmes such as structural and agricultural funds (Germany - Bundesrat).

A related point of contention is the future of the Recovery and Resilience Facility. Some countries argue that the instrument should be discontinued, as envisaged in its Regulation, and are open to discussion on transferring lessons to Cohesion Policy (e.g. Finland, Germany – *Bundesrat* (Box 14)) on the condition that audit and control pressures are not increased and regional implementation remains possible (Netherlands). Taking a different view, Greece calls for the RRF to be expanded given it is effectiveness in addressing EU green and digital transition priorities, which will continue to be important priorities in the years to come. Poland acknowledges that there is no need for a second round of the RRF but argues that this should mean that there is more funding available for Cohesion Policy.

**Table 8: Development of positions on post-2028 MFF and Cohesion Policy**

| | Position development | Key actions |
|---|---|---|
| **Austria** | No formal position paper expected before EU proposals. | Internal monitoring and discussions, with focus on contributing to EU-level fora and debates |
| **Czechia** | Ongoing debates, no formal position paper yet. | Working Group involving policymakers, partners from various sectors, and non-profit representatives; national priorities identified. |
| **Denmark** | No formal position paper published. | While no position paper is published, key issues are well-known |
| **Finland** | No formal position developed yet. | Discussions initiated through a memo by the Prime Minister's Office in April 2024. Formal position expected after Commission's proposal in 2025. |
| **France** | National dialogues and consultations underway, no formal position. | A draft contribution is under discussion between the state and regions on budgetary issues. Consultations ongoing. |
| **Greece** | Emerging position under development. | Series of internal processes and external engagements, including a national event in July 2024, involving policymakers and experts. |
| **Germany** | Federal position being developed, Bundesrat paper published in November 2023, some Länder papers published. | Länder and federal government actively involved through Minister President conferences. Full national position (joint federal-Länder) expected by end of 2024. |
| **Ireland** | Public consultation conducted, position paper in progress. | Responses from consultations will inform a position paper expected in January 2025. National conference held in September 2026. |
| **Italy** | Initial reflections discussed, no formal position. | Seminar in July 2024 with experts, the Commission, and stakeholders to assess future strategies. |
| **Netherlands** | Position published following delay after elections | Joint paper of Dutch central, regional and local government published in October 2024 |
| **Poland** | Ongoing discussions, position paper in development. | Expert group meetings since 2022, final position expected by end-2024. Convent of Marshals, published joint position paper in September 2024. |
| **Portugal** | No formal position papers published. | AD&C has developed internal analysis on the future of Cohesion Policy which have supported national positions on the topic, including for the Ministerial Meetings. |
| **Romania** | No formal position papers published. | General government views outlined during October 2023 meeting on future EU budget & Cohesion Policy. |
| **Spain** | No formal position papers published. | Discussion mainly in EU Council debates, particularly during Spanish Presidency in 2023. Some regions contributing at EU level. |
| **Slovakia** | Position in preparation, draft expected by end of 2024. | The Ministry of Investment started the process in April 2024, with consultations planned before the national position is finalized. |
| **Sweden** | No formal position paper yet. | Informal discussions have identified priorities. Contributions from regions/stakeholders expected via the Government Forum for Sustainable Development. |

*Source: EoRPA research*

**Box 13: Finland's preliminary position on the MFF and Cohesion Policy**

**Maintain EU budget discipline:** The EU budget should remain reasonable, avoiding an increase in net contributions. The RRF is a one-time solution and should not set a precedent for future MFFs.

**Investments in key priorities:** Openness to additional investments in important priorities, but these must not significantly increase the EU budget or burden national budgets. The MFF should remain the primary tool for EU-level funding.

**Holistic MFF review:** The MFF should be reviewed comprehensively, focusing on the overall level, national priorities, and strategic priorities. It is critical to maintain a reasonable net payment position while addressing changing security concerns, such as support for Ukraine.

**Support conditionality & fund oversight:** Strongly supported including the rule of law, prevention of corruption, and misuse of funds. Focus also on simplifying management and reducing administrative burdens.

**Targeting funding - Strategic priorities:** Strengthen EU competitiveness, security, and foster clean transition, bioeconomy, and circular economy. Reallocate funds to enhance overall security and protect the EU's external borders, considering the impact of possible enlargement. Strong commitment to Ukraine's reconstruction through financial solutions.

**Specific funding objectives**

- Prioritise strategic areas by reallocating funding to defence, crisis preparedness, and border security, significantly increasing these sectors' share of the MFF.
- Maintain and expand the rescEU instrument as part of crisis preparedness.
- Strengthen Europe's strategic competitiveness by increasing R&D&I funding, emphasising open competition and high quality.
- Highlight the importance of the eastern border in EU funding.
- Explore results-based funding models to enhance the effectiveness and impact of EU funding, especially in mobilising private investments.

**Modernising Cohesion Policy:** Emphasis should be placed on the EU's external border regions, particularly Eastern and Northern Finland, due to their significance for Europe's security and operating conditions. With potential new Member States joining the EU, the geographical focus will shift more towards Eastern Europe recognising lower prosperity levels of new members.

- As regional cohesion progresses, the need for common EU funding decreases.
- Reduce the share to cohesion relative to other EU priorities. When assessing cohesion funding's importance, net contribution must be acknowledged.
- National co-financing should be emphasised, decreasing reliance on EU-level funding and strengthening Member States' ownership.
- Special funding needed for Eastern Finland's external border regions, addressing challenges caused by the EU's changed security environment.
- Criteria such as northern location, migration, sparse population, and long distances remain essential for consideration.

*Source: Prime Minister's Office (2024) Ennakkovaikuttaminen tulevaan EU:n monivuotiseen rahoituskehykseen (2028–), 26 April 2024,*

**Box 14: German *Länder*: Federal Council (*Bundesrat*) position on Cohesion Policy**

**Importance of Funding for Cohesion Policy and for all regions**

- Continued funding for all regions, stressing the transformation challenges posed by the European Green Deal and the transition to a digitalised, climate-neutral economy.
- Increased funding for all funds for growing needs and to achieve long-term goals after 2027, adjusted for inflation.
- Retain the three regional categories based on developmental levels after 2021-27.
- EU cofinancing should be 50% for more developed regions in 2021-7, and increased to 70% for transition regions

**The central EU policy instrument for implementation on the ground**

- Strategic projects at regional level create European added value.
- Discontinue the RRF and consider transferring some RRF elements to Cohesion Policy.
- Strengthen the circular economy through increasing funds and improving tracking climate action in Structural Funds.
- ESF+ focus on gender equality and equal opportunities should remain central to all funds.
- The scope for more transport transition support in the ERDF/JTF should be examined

**Simplification of administrative procedures**

- Simplify funding and streamline administrative processes, especially for smaller actors like municipalities and micro-enterprises.
- Harmonise funding across different EU instruments to reduce administrative burdens and increase efficiency.
- Retain N+3 rule for the post-2027 period
- Simplify programming with no new fundamental requirements and conditions

**Partnership-based programming and implementation close to citizens**

- Support for decentralised regional management, opposing new centrally-managed instruments to the detriment of Cohesion Policy
- Reinforce integrated territorial approach under the Europe closer to citizens objective including through functional areas and urban-rural partnerships

**European territorial cooperation**

- Interreg to be strengthened with additional funds due to the high value added
- Strengthened macro-regional approach

**Clear distinction between Cohesion Policy and crisis intervention**

- Cohesion Policy should concentrate on Treaty tasks, clearly distinct from crisis instruments, with sufficient funding and flexibility to support short-term responses if necessary.

*Source: Bundesrat Opinion 297/23, 24 November 2023.*

**New EU priorities.** Defence capabilities and security along the EU's borders has increased in importance in the light of the Russian invasion of Ukraine, requiring investment in military mobility, dual-use infrastructure, and rapid deployment capacities (Poland). Strengthening border security, especially along the eastern borders and in cooperation with Ukraine, is a priority to address growing economic, social challenges, and migration pressures (Poland). For Finland, enhanced funding for border protection and crisis preparedness is necessary, particularly given the strategic importance of Finland's eastern border with Russia. Ensuring adequate funding for security and defence remains central in meeting the EU's strategic transformation goals, including the Green Deal (Germany).

Geopolitical challenges arising from the war in Ukraine point to the need for enhanced territorial cooperation. Finland, Poland, Latvia, and Lithuania argue that special allocations are necessary for regions bordering Russia or Ukraine, which are disproportionately affected by the conflict. Poland further highlights the need for cooperation with Ukraine, particularly in developing transport infrastructure and border crossings. Estonia stresses the importance of promoting cross-border cooperation and emphasises the need to account for geopolitical risks when planning future Cohesion Policy. Lithuania also underscores the need for cross-border cooperation to address the geopolitical challenges facing its eastern regions, particularly in terms of energy reliance and barriers

**Cohesion Policy objectives.** All countries acknowledge that Cohesion Policy remains fundamental to addressing long-term regional disparities and convergence. Maintaining Cohesion Policy as the EU's main investment tool for reducing regional disparities is stressed by Poland, with a focus on adapting to changing circumstances while promoting convergence. The policy should focus on areas of strategic importance such as digital and green transitions, maintaining adequate funding for less developed regions (e.g., Netherlands, Poland), but ensuring a coherent and cohesive framework for addressing wider EU objectives (Portugal). The importance of using Cohesion Policy as a tool for increasing cohesion in the context of geopolitical risks posed by the conflict in Ukraine is also stressed (Germany, Latvia, Poland).

- **Green and digital transitions.** The Dutch vision paper (see Box 16) emphasises an innovative and sustainable focus on the three transitions' maintaining a thematic focus on digital and green transitions in future Cohesion Policy with increased attention to AI, digital literacy, and green mobility, stressing that cohesion funding should continue to support developed regions as they transition to more sustainable economies. The German *Länder* support strengthening the circular economy by increasing funds for climate action through cohesion mechanisms. Poland adds that the Green Deal should be implemented in agricultural policy through financial incentives rather than mandates to ensure its effectiveness across all regions.

- **Migration and demographic Issues.** Migration and demographic challenges are raised as key concerns (Greece, Germany - *Bundesrat*, Hungary, Poland). Greece calls for an increase in funding to manage immigration, with demographic issues seen as a major threat to economic stability. Hungary shares similar concerns, advocating for Cohesion Policy to contribute to addressing demographic challenges while maintaining its core mission of promoting balanced territorial development. Poland highlights the demographic issues facing eastern regions and calls for tailored investments to address these challenges through Cohesion Policy in the future.

**Structural Reforms and Conditionality.** The importance of structural reforms and conditionalities, such as the rule of law, is emphasised by Finland and the Neterlands. By contrast, other countries highlight that integration of structural reforms into Cohesion Policy should be done carefully to ensure they are region-specific and appropriate for the investments being made, avoiding unnecessary barriers for programming (Poland).

**Partnership and multi-level governance.** Many countries support a shared-management approach, insisting that a partnership and place-based approach remains essential to Cohesion Policy. A key theme, especially in the positions of regional governments, is the importance of (greater) decentralised governance in the implementation of Cohesion Policy (Poland - regions, Germany – *Bundesrat*, Netherlands). The Polish government stresses that the partnership principle must be expanded to include more civil society representatives and regional stakeholders in the decision-making process. The Dutch vision paper calls for a 'sound partnership' between national, regional and municipal partners'. Related, the German Bundesrat opposes the introduction of new centrally managed instruments that would undermine regional control.

**Simplification.** Simplification of administration is a common priority across all Member States, viewed as critical to make Cohesion Policy more efficient and less burdensome. Streamlining thematic concentration and reducing administrative complexity in climate earmarking and other areas will help tailor Cohesion Policy to regional needs (Poland). Simplifying administrative burden, especially for small municipalities and micro-enterprises, is seen as necessary to improve funding efficiency and accessibility (Germany). The need for harmonisation across EU instruments to prevent fragmentation and unnecessary complexity is stressed (Estonia, Germany, Polish regions). Denmark's main priorities are to ensure value for EU money, reducing administrative costs and increasing proportionality by allowing smaller programmes to opt out of complex thematic and administrative requirements. The Dutch vision paper calls for simplification to go beyond simplified cost options and harmonisation of rules to reduced reporting requirements and improvements to tools such as ARACHNE to support fraud risk management.

**Box 15: Polish regions position paper on Cohesion Policy post-2027**

**EU Cohesion Policy should be allocated directly to regions**

- Recognise regions' leading role in preparing and implementing programmes, strengthening subsidiarity and multi-level governance, with increased competences for regional/local authorities as key actors in EU development.
- Direct support to all NUTS 2 regions through regional programmes (in decentralised countries) or national programmes with sections encompassing interventions directed to regions (in other countries).
- Focus on disparities across and within regions. Reduce the risk of regions falling into development traps, supporting strategic plans, strengthening resilience, response to external shocks, and the potential of functional areas.

- Ensure a wide catalogue of support, allowing regions to match OPs to conditions and needs in strategic documents, abolishing top-down thematic concentration.
- Individualise Commission approaches to regions.

**Mechanisms for implementation need to be built from new**

- Create one fund directed to the realisation of all Cohesion Policy objectives without subsequent changes to basic regulations.
- Base Commission-region relations on trust in negotiation and implementation of OPs, while ensuring a supporting (coordinating) role of national governments.
- Define indicators that capture potential effects of measures, with the possibility of including other, more relevant 'tailor made' indicators.
- Base expenditure and claims in OPs on milestones and achievements of real effects, and not on incurred costs.
- Replace the 'n+3' principle by strengthening the system monitoring the pace of payments - move away from automatic penalties.
- Take into account MAs in reforms and regional regulations for dealing with socio-economic issues in the regions, without drawing on national legislative reforms.
- Ensure greater decision-making by regions, including in programme management and identification of means to achieve programme objectives.
- Reduce processes for programme amendments (notification to EU), and simplify and accelerate amendments by the EU to support effective reaction of regions to significant changes in contexts.
- Allow the rejection of audit decisions on legal grounds. Use adequate, proportional financial corrections. Limit the influence of audits on realised investments.

**Strengthen territorial instruments**

- Make the ITI formula flexible. Agree their general principles (types) in negotiations between the Commission and programmes, with MA level decisions on particular solutions and also the themes and territories to be supported.
- Enable differentiation of ITI according to the maturity of territorial partners. Use ITI to support institutional effectiveness, particularly where cooperation is low
- Direct ITI support towards quality and effectiveness and not spending.
- Introduce positive incentives (including financial) for ITI.
- Introduce in ITI a stimulus for actions that support supra-local partnerships that address complex problems, needs and potentials in functional areas.

*Source: Position paper on EU Cohesion Policy post-2027 from the Convention of Regional Marshalls in Poland, Second edition, 6 September 2024*

**Box 16: Vision Paper of Dutch central, regional and local government**

Future Cohesion Policy should continue to focus on:

- **Convergence**: fostering economic, social and territorial convergence by revitalising regions that are lagging behind in socioeconomic terms. While Cohesion Policy should continue to focus as much as possible on these regions, it should potentially be open to all regions in the EU.
- **Competitiveness:** improving the EU's competitiveness through innovative ecosystems, sustainability and a sufficiently large, highly skilled workforce.

In practical terms, this means that Cohesion Policy should continue to focus on:

- **Innovative and sustainable focus on the three transitions**: this concerns the digital, social (labour market) and green transitions, with research and innovation (and the rollout of innovation) as the cross-cutting theme. Prerequisites for the transitions are fairness, a sufficient supply of raw materials and the right critical technologies.

Any investment of this kind should take the following aspects into account:

- **Partnership principle:** a sound partnership between national, regional and municipal authorities and partners under shared management arrangements with the European Commission. Regional implementation should remain a possibility.
- **Place-based approach**: regions should be challenged more to increase their productivity and resolve social problems. They could do this by identifying their strengths and leveraging them through innovation, multilevel cooperation and regional specialisation. Broader regional transition plans could also be useful.
- **Investment in people:** to achieve the transitions in a way that will benefit all regions and their inhabitants, it is vital to invest in human capital and social inclusion. Ensuring a sufficient and skilled workforce is essential.
- In the next programme period, it will remain important to encourage collaboration between European regions as part of Cohesion Policy, so **cross-border, transnational and interregional cooperation** should remain on the agenda. There should be more incentive to make interregional innovation investments.
- In this context, scope and appropriateness are being explored **for submitting statements of expenditure based in part on outcomes and results** (in relation to milestones and goals) and links with the **European Semester.**
- Based on **experience with the Recovery and Resilience Facility**, it is worth looking at what lessons could be learned for future Cohesion Policy. Having horizontal conditions, such as the respect of the rule of law, are essential for implementing future Cohesion Policy.
- **Simpler regulation and better implementation** in accordance with the principle of sound financial

*Source: Government of the Netherlands (2024) Cohesion policy post-2027 Joint vision of Dutch central, regional and local government,* October 2024

### 5.6.2 Member State perceptions of the added value of Cohesion Policy

Member States perspectives on the added value of EU Cohesion Policy, based on EoRPA interviews and desk research, highlight common themes including multiannual programming, strategic planning, multilevel governance, monitoring and evaluation, and capacity-building.

- **Multiannual programming** has been encouraged through EU Cohesion Policy, contributing to the adoption of longer-term planning and strategic investments. Greece has used the Cohesion Policy framework as a model for other national instruments like the National Development Programme. In Poland, the evolution of comprehensive national and regional development strategies over the past 10-15 years has been influenced by Cohesion Polic, introducing coherence across multi-annual programmes. Italy has used multiannual programming to align Cohesion Policy investments with its strategic priorities, to address long-term challenges. In Slovakia, the EU Cohesion Policy approach has become standard practice for designing national policies. Austria and Sweden also recognise the benefits of multiannual programming for long-term planning. In Hungary, Cohesion Policy has influenced the strategic planning of multi-annual programmes/instruments, although the annual budget cycle remains dominant.

- **Strategic planning** is an area where Cohesion Policy has significantly impacted Member States and added EU value. Bulgaria has seen substantial advancements in strategic planning, integrating Cohesion Policy's principles into its spatial and regional development strategies, enhancing coordination across sectors. In Germany, multi-annual and strategic programming is viewed as important in supporting policy development, especially under the sustainability theme. Greece has adopted strategic planning influenced by Cohesion Policy, including conditionalities, contributing to a more structured approach. Italy emphasises the significant strategic planning impact on national programmes. Poland and Romania highlight the development of national and regional strategies influenced by Cohesion Policy, leading to a more strategic focus in public funds allocation. Finland recognises the role of Cohesion Policy in shaping national policy design, while Sweden emphasises the specific strategic planning added value in smart specialisation and territorial cooperation. Slovenia views strategic planning as the primary added value of Cohesion Policy in the current period. In Ireland, a key area of value and learning relates to managing larger scale projects, e.g. moving infrastructure (and other policy areas) away from sporadic investments by county councils to more integrated approaches and larger scale plans. Estonia's shared governance practices have created synergies in using different funding sources by integrating external funds into the national budget strategy.

- **Multilevel governance and partnership** is one of the most commonly cited areas of added value of Cohesion Policy, especially in the academic literature. Even in federal countries with strong MLG mechanism in place such as Austria, Cohesion Policy is credited with contributing to structured cooperation. In Germany, one of the most important aspects of added value is increasing visibility of Europe in the regions. Estonia and Poland highlight the role of Monitoring Committees, including a range of partners, in shaping coordinated responses to policy design and implementation. Czechia has developed platforms involving relevant partners throughout the EU funds implementation process, evolving towards a more inclusive framework. In Poland, the Cohesion Policy has been useful in strengthening the role of regional self-governments, with increasing competences and responsibilities at the regional and local levels, with territorial instruments playing a major role in sponsoring cooperation with and across municipalities. Greece acknowledges the institutionalisation of the role of NUTS II level regions through Cohesion Policy, while Sweden values the multi-level governance fostered by the policy. Italy emphasises the EU's multilevel governance framework in improving regional and local governance effectiveness, albeit with variables impacts across regions.

- **Civil Society engagement** through EU Cohesion Policy varies by country reflecting domestic institutional, political and historical practices. Germany considers that Cohesion Policy can impact citizens on the ground and strengthen the positive image of the EU, which is important in the current political climate. By contrast, Austria considers the impact on civil society to be limited due to complex access to EU support, contrasting with CAP frameworks like LEADER, which are more accessible and have impacted on civil society engagement. Hungary highlights a positive spillover effect, using Cohesion Policy and RRF funds to scale up local development models, involving multiple civil society organisations. Slovakia reports strengthened cooperation with civil society, facilitated by the Office of the Plenipotentiary for Civil Society, especially during the 2014-2020 period. Poland's programmes have enabled deeper engagement with a wider range of stakeholders including civil society organisations. Romania's implementation of the partnership principle has allowed increased interaction and consultation with civil society.

- **Monitoring and evaluation** practices have been enhanced across many EU countries due to Cohesion Policy. Austria experienced a boost in evaluation culture, although the added value varies depending on monitoring and evaluation purposes. Estonia and Latvia recognise the value of Monitoring Committees and data availability, with Latvia highlighting the integration of evaluation processes with public databases, streamlining and automating the monitoring of outcomes and increasing the availability of data. Poland credits Cohesion Policy with establishing a formal evaluation system since 2004, now embedded in national policy frameworks. Greece and Slovakia have also developed expertise in monitoring and evaluation, especially at national level, leading to better monitoring and evaluation of public policies. Finland highlights the EU added value of monitoring systems under Cohesion Policy, but less so in terms of evaluation. Romania has increasingly used studies and evaluations to reinforce a strategic outlook, emphasising the need for effective monitoring and evaluation processes. Portugal has seen profound advances in evaluation practices as a direct consequence of Cohesion Policy.

- **Administrative capacity-building** is acknowledged to be an important area of added, which has increased in importance over time, despite significant strains on capacity from implementation rules. Austria and Finland have primarily focused on capacity-building related to the administration of EU funds and adapting to EU regulations. Italy has used Cohesion Policy to strengthen institutional capacity across various areas, including digitalisation, transparency, and skills development. In Hungary, there is a growing focus on investing in capacity-building through training programmes for public administration staff, spreading Cohesion Policy competences across government institutions. Greece has seen public administration reforms financed by Cohesion Policy, including flagship actions like the Citizens' Service Centres. Slovakia, and to an extent Spain, are increasing awareness of the broader concept of capacity-building in the public sector, as a result of Cohesion Policy interventions and roadmaps. In Romania, Cohesion Policy capacity-building was limited to human resources in the past, but has increasingly focused on initiatives to increase awareness of the concept of capacity-building in public sector more generally.

- **The impact of Cohesion Policy on wider public administrative culture** has also been cited as an important aspect of Cohesion Policy added value. The Europeanisation process, whereby countries adapt to EU policies, regulations, and modes of cooperation, initially posed challenges for many member states but has since become a routine aspect of governance. In some countries, Cohesion Policy has played a key role in fostering a performance-oriented approach. Italy's performance-oriented approach has spread from Cohesion Policy to national programmes, incorporating the use of performance targets and open data. In Portugal, Cohesion Policy has enhanced the result-orientation of public policies through the development of evaluation skills, territorialisation of policies and co-responsibility of actors at different levels. In Poland, the implementation of evaluation findings and recommendations has been integrated into public administration practices through a formal system driven by Cohesion Policy. In Romania, Cohesion Policy has supported the digitalisation of internal systems and processes, and the building of capacity of beneficiaries at different levels. Similarly, Latvia has improved state and local government communication with the public through EU-funded ICT investments, enhancing public e-service usability significantly.

### 5.6.3 *Member State reflections on the High-Level Group report*

The HLG report is considered a valuable contribution to the debate on Cohesion Policy reform with useful analysis of territorial challenges and strategic policy priorities. However, some Member States considered that the report lacked sufficiently clear and actionable recommendations, limiting the practical utility for reform by policymakers. Comparative analysis of Member State reactions to specific recommendations reveals varied perspectives. While there is a convergence of views on the importance of a place-based approach, capacity building, and partnership principles, there is less consensus on the proposal on the budget, performance-based models and integration with broader EU economic governance frameworks.

- **An increased budget for Cohesion Policy** or matching the 2021-27 budget in real terms is a point of contention. Many countries emphasise the need for adequate funding to address growing challenges. For instance, some countries highlight the importance of increasing the budget noting that common challenges have significantly increased (Czechia, Estonia). However, the feasibility of a higher budget is questioned due to competing EU priorities and resistance from net contributors (Austria, Finland, Germany). Germany highlights the difficulty in balancing cohesion goals with broader political agendas.

- **A more place-based approach with future-oriented investments** has strong support. Several countries argue for tailored solutions that address local strengths and needs. For instance, Belgium highly favours a place-based approach. Austria and Germany call for a balance between place-based and sectoral policies/strategic alignment with the core objectives of Cohesion Policy, emphasising the integration of local initiatives with wider strategic orientations.

- **Remaining focused on driving sustainable development and competitiveness** is widely endorsed. There is support for a long-term focus that maintains flexibility to new challenges (France, Slovakia), while retaining existing objectives (Estonia). Austria and Germany express concerns about integrating sustainability as a distinct mission, suggesting alternative approaches within existing frameworks to avoid unforeseen budgetary allocations.

- **Promoting a holistic approach to social policy** finds support, with an emphasis on human capital development and social integration. The importance of addressing the "geography of discontent" is highlighted (France). Enhancing the link between ESF+ and ERDF to foster a more comprehensive strategy is suggested (Germany, Latvia), indicating a strong link between social policy and cohesion objectives.

- **Utilising local capabilities for inclusive and sustainable growth** is seen as important for regional development. Advocating for a balance between local and regional perspectives to maximize development potential is emphasized (Estonia, France). However, challenges in implementing this approach, particularly in regions lacking capacity, are noted (Lithuania, Slovakia). The need for stronger regional identification of smart specializations and structural adjustments to enable more effective local engagement is highlighted.

- **Building better institutions through capacity building** is widely acknowledged as important, with a focus on enhancing the effectiveness of Cohesion Policy. The need for capacity building to align with broader policy objectives rather than focusing solely on managing complexity is stressed (Austria, Hungary). Capacity building is suggested as a cross-cutting theme, particularly in less developed regions (Lithuania).

- **Promoting the partnership principle for more effective and inclusive strategies** is recognised as a core aspect of Cohesion Policy. Portugal stresses the importance of strengthening partnerships and shared management, particularly through multi-level governance. More involvement of civil society and local actors is advocated to ensure the development of strategies that are inclusive and adapted to local needs. Challenges in ensuring effective cooperation are also noted, with a warning against over-complicating the process to avoid creating unrealistic expectations among stakeholders (e.g. Austria).

- **Connecting regions to harness global opportunities for sustainable innovation** is seen as vital. The need for operational learning between more and less developed regions is emphasised (Germany). Encouraging cooperation between regions in various themes and fields is also advocated (Estonia). The importance of better communication on the results achieved in regional innovation initiatives is highlighted by France, with a view to fostering sustainable innovation ecosystems.

- **A more performance-based Cohesion Policy** while maintaining its territorial dimension is met with cautious openness. Careful consideration of implementation mechanisms is suggested to avoid unintended consequences (Estonia, Czechia). Concerns are raised about how performance-based criteria might impact the policy's territorial dimension (Netherlands, Romania). Ireland expresses concerns about the implications of a performance-based approach on small, community-driven projects, arguing that such an approach could undermine the local, bottom-up nature of these initiatives.

- **Streamlining administrative procedures to simplify processes** is a widely supported recommendation. The need for legal certainty and careful assessment of the impact of new regulatory obligations to prevent the erosion of simplification efforts is stressed (Austria, Hungary). Adopting new technologies to enhance efficiency and reduce bureaucracy is suggested (France). Denmark stresses the need for simplification, particularly for small programmes, and calls for opt-outs from thematic concentration obligations to reduce administrative burden.

- **Embedding Cohesion Policy more firmly into the European Semester's economic governance** system has mixed support. There is perceived value in aligning with national initiatives while retaining member state autonomy in implementing reforms (Estonia, Latvia). However, maintaining the territorial dimension is stressed, and there are concerns about further embedding the policy into the European Semester without considering regional autonomy (France, Hungary). Portugal acknowledges the potential benefits of aligning Cohesion Policy with broader economic governance but emphasises the need to ensure that this does not dilute the core mission of reducing disparities and promote regional development.

## 5.7 Changing maps of regional eligibility

The algorithm for determining regional eligibility and the allocation of funding is always central to reform debates. Under the current allocation formula, the latest GDP per head data for 2020-22 indicate limited changes in the eligibility status of regions the EU27 compared with the current status, although there would be significant shifts with enlargement.

In a scenario with no enlargement, the majority of EU27 countries would experience no changes in the eligibility status of their regions (Figure 14). The shifts in eligibility would be concentrated in eleven countries (twenty regions), with upward shifts anticipated in six countries:

- **Czech Republic:** the regions of Severovýchod and Střední Morava would move from Less Developed Region (LDR) to Transition Region (TR) status.
- **France:** the region Provence-Alpes-Côte d'Azur would progress from TR to More Developed Region (MDR) status;
- **Italy:** the region of Basilicata, would move from LDR to TR status;
- **Malta:** the entire country would progress from TR to MDR status;
- **Poland:** the regions of Pomorskie and Śląskie would advance from LDR to TR status and;
- **Romania:** the region of Vest would move from LDR to TR status.

By contrast, downward shifts in eligibility are expected in twelve regions in six countries, with half being downgrades from a More Developed Region to a Transition Region:

- **Belgium:** the region of Hainaut would move from TR status to LDR status;
- **France:** the region of Martinique would move from TR status to LDR status;

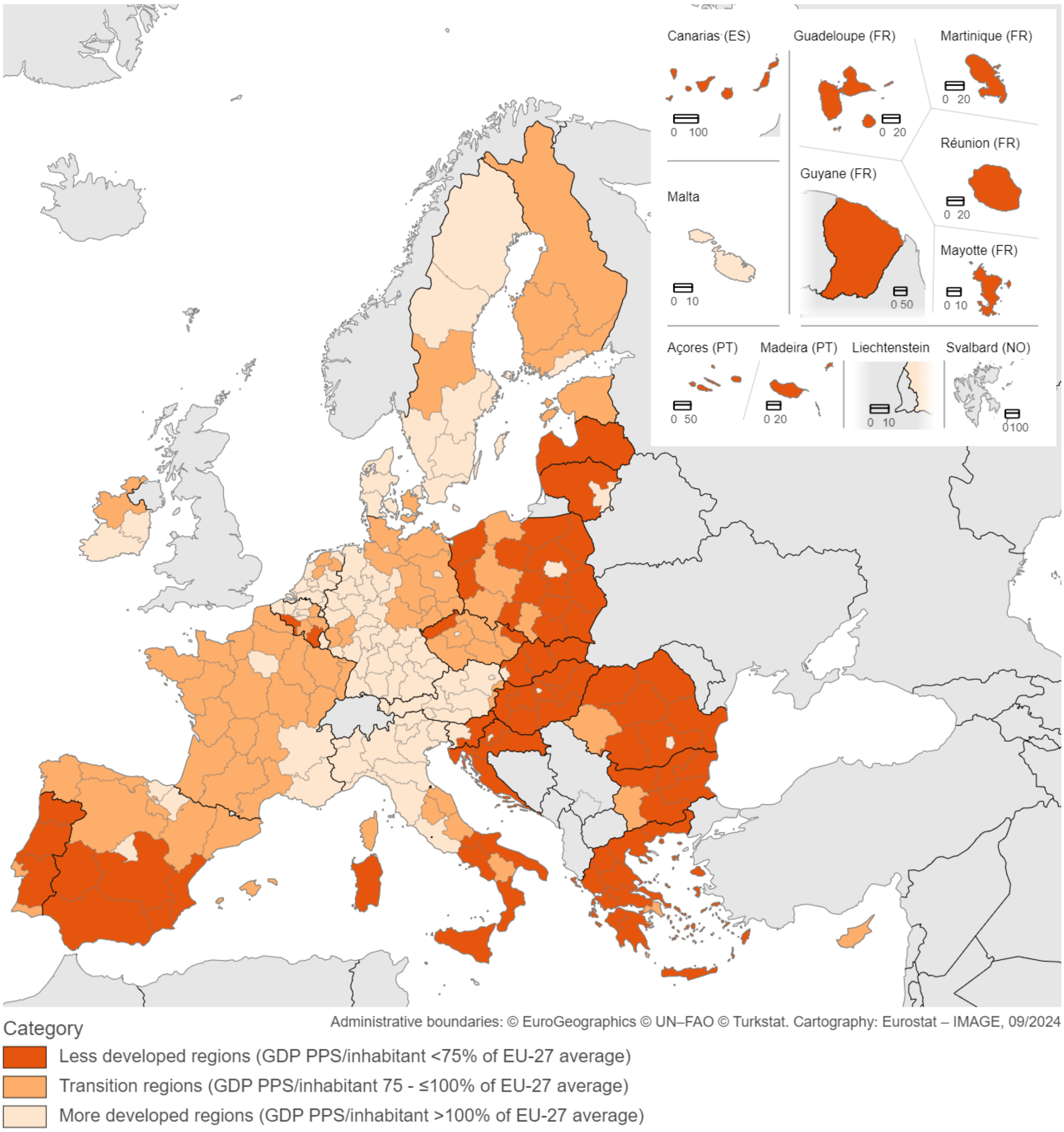
- **Germany:** the regions of Koblenz, Leipzig and Schleswig-Holstein would shift from a MDR to TR status;
- **Greece:** the region of Notio Aigaio would move from TR to LDR status;
- **Portugal:** the metropolitan area of Lisboa would move from MDR to TR status; and
- **Spain:** the regions of Cataluña and Aragón would move from MDR to TR status, and the regions of Comunitat Valenciana, Murcia and Canarias would move from TR to LDR status;

However, the eligibility map would differ significantly in a scenario with EU enlargement. A further analysis of eligibility is provided in Figure 15, incorporating five of the nine candidate countries for which directly comparable GDP per capita in PPS data (as used in the EU eligibility formula) is available: Albania, Montenegro, North Macedonia, Serbia, and Turkey. It therefore excludes Ukraine, Georgia, Moldova, Bosnia and Herzegovina, due to the absence of comparable data on GDP in PPS.

Incorporating this subset of five candidate countries, leads to an average GDP per capita fall across the EU32 of 3.6 percent, given the lower average levels of economic development in the candidate countries. As a consequence, 18 regions in nine of the current EU27 regions would move from Less Developed Region to Transition region status or from Transition to More Developed Regions.

- **Belgium**: the region Limburg would move from TR to MDR status. The regions Hainaut and Luxembourg would advance from LDR to TR status.
- **Germany**: the regions Koblenz, Leipzig and Schleswig-Holstein would move from TR to MDR status.
- **Spain**: The region Catalonia would move from TR to MDR and the region Comunitat Valenciana would move from LDR to TR.
- **Finland**: The regions Länsi-Suomi and Etelä-Suomi would advance from TR status to MDR.
- **Ireland**: The region Northern and Western would progress from TR to MDR status.
- **Poland**: The region of Łódzkie would move from LDR to TR.
- **Portugal**: the region of Lisboa would progress from TR to MDR status, and the region of Madeira would move from LDR to TR.
- **Sweden**: the region Norra Mellansverige would advance from TR region to MDR.
- **Slovenia**: the region Vzhodna Slovenija would progress from LDR to TR status.

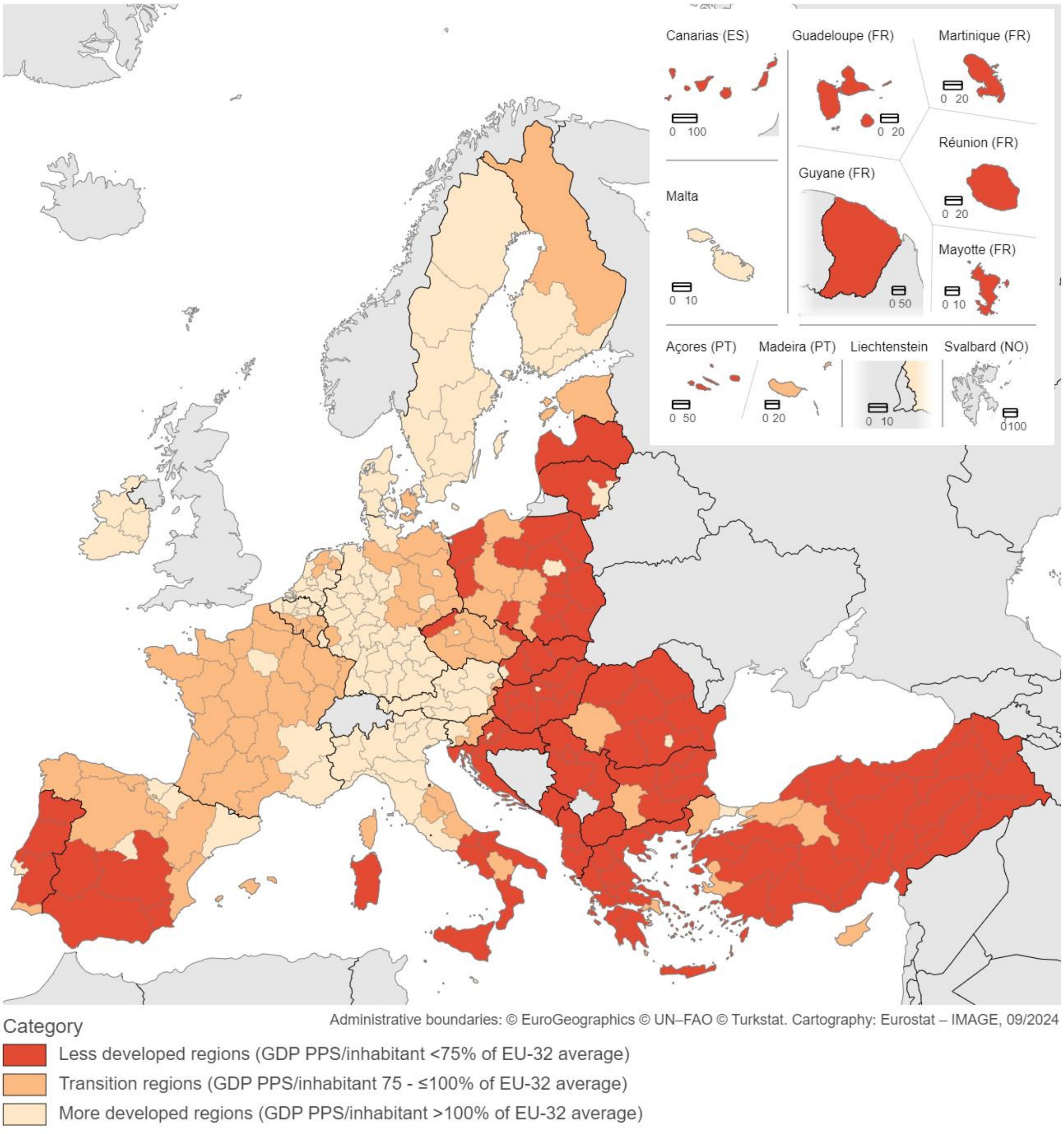
**Figure 14: Future eligibility for Cohesion Policy post 2027 in EU27: No enlargement**




By contrast, all regions in the five candidate countries (except five NUTS 2 Turkish regions) would be categorised as LDR regions/countries. Among Turkish regions, the capital region (Istanbul) would have MDR status, and a further four NUTS 2 regions would have Transition status: Tekirdağ, Edirne, Kırklareli (TR21), İzmir (TR31), Kocaeli, Sakarya, Düzce, Bolu, Yalova (TR42) and Ankara (TR51).

It is important to highlight that these shifts would be compounded, with further regions changing eligibility status, by including the remaining less developed Candidate Countries (Ukraine, Georgia, Moldova, Bosnia and Herzegovina), once comparable GDP PPS data become available.

**Figure 15: Future eligibility for Cohesion Policy post 2027: Enlargement scenario (EU32 subset)**

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# 6 CONCLUSIONS

The EU is at a critical point in its evolution, variously described as a 'crossroads', 'pivotal juncture' and 'last chance saloon'.[121] The current expectation is of radical change to the structure of the MFF, potentially with a common set of EU strategic objectives, a limited number of 'pillars', each as an umbrella for existing funds, and performance-based implementation drawing from the RRF experience. The difficulty for the Commission is the inertia and path dependency built into the EU budget and, on the regulatory side, the challenge that any changes will inevitably be disruptive to the implementation of policy objectives.

Among the many issues relating to Cohesion Policy reform raised by this report are the following five issues relating to the position of Cohesion in the new MFF, strategic coherence, the place-based approach, governance and performance management.

**1. What will be the place of Cohesion and Cohesion Policy in the new MFF**

As always, the size and allocation of the MFF will be the most difficult political decisions with European Council debates likely to continue well into 2026. There is a consensus on giving more priority to EU objectives – competitiveness and strategic autonomy, the green and digital transition, migration and demographic challenges, and security – but not how they should be paid for.

The place of Cohesion in the next MFF is clearly threatened. On the one hand, the Commission President stated her commitment to cohesion in the Political Guidelines for her new mandate, and restated in her mission letter to the Commission-designate for Cohesion and Reforms. On the other hand, cohesion was absent from the mission letter to the Commission-designate for Budget and his questionnaire responses to the European Parliament excluded cohesion from the key principles guiding his priorities (though it was mentioned in his Hearing). In the leaked paper from DG Budget, Cohesion was subsumed with other shared management policies in a proposed Pillar 1.

Among the Member States, net beneficiaries are emphasising the vulnerability of poorer regions to the transitions and the importance of Cohesion Policy, while several net payer countries are already signalling that their priorities are for sectoral policies to support innovation, increased productivity and industrial transformation. The situation is complicated by the recognition of development traps (or the risk of them) affecting more prosperous regions, although it could be argued that these are primarily the responsibility of national regional policies.

There are at least three set of concerns about the emerging thinking from DG Budget, relating to politics, policy and implementation practice.

First, the **politics of the MFF** and how to support competitiveness and other objectives. The driving force in MFF negotiations are the net balances acceptable to each Member State. At a time when the EU has ambitions to 'do more' on strategic priorities that require more money, while Member States are reluctant to pay more into the EU budget, grant new resources, or take on more EU debt, the stage is set for difficult discussions on the size of the next MFF.

When it comes to sharing out the MFF cake, a key factor has historically been the pre-allocated funds under CAP and Cohesion Policy, the latter sometimes described as the 'adjustment variable' in securing agreement. The long-established 'Berlin formula' underpinning Cohesion Policy has become progressively more complicated over successive MFF reforms, with its mix of regional eligibility and financial allocation criteria (and their weighting), and the thresholds, ceilings, floors, and special allowances to meet the requirements of individual countries. While complex, the system has provided a mechanism for finding a compromise that is rooted in the economic development situation of regions, and (latterly) has become reasonably transparent.

One approach would be to continue with the current methodologies for allocating funding under Cohesion and other policies and then 'merge' them into a single fund (discussed further below). Another would be to create a new financial allocation mechanism to simplify the process. This was done for the RFF which was based on population, national GDP per head and unemployment rates, with adjustments for economic impact from the pandemic and a capped distribution. However, the RRF was designed to promote national recovery in the first instance and justifiably only took national indicators into account. Funding for Cohesion whether as part of a new Pillar 1or separately will need to recognise the very different situation of regions and similarly provide a logic for the other shared management funds.

Second, **policy**. One of the most important conclusions of the HLG Report is that a failure to take account of the territorial dimension in pursuing EU strategic priorities will undermine their effectiveness. EU growth and competitiveness will not be achieved unless structural and institutional deficiencies – outside the major cities and core regions – can be addressed. The social and political consequences of real or perceived polarisation within countries and across the EU also matter.

- For example, one of the problems with lagging EU innovation and productivity is that regions outside the 'frontiers' are underperforming.
- The green transition will have a differential impact on regions; some will benefit and exploit new opportunities, while others (often lagging regions) will have their vulnerabilities exacerbated.
- Demographic change affects different parts of the EU differently whether regarding ageing, labour shortages or the integration of migrants.

- Security concerns vary similarly, of particular importance to Member States on the eastern border that face the twin challenges of spending more on defence and dealing with refugees.

Addressing the long-standing 'blind spot' towards cohesion at the heart of the Commission is important in designing the policy architecture as well as allocating budgetary resources effectively.

The third issue is **implementation practice.** A persistent challenge of modern governance at EU and national levels is a failure by decision-makers to think through and understand how well-intentioned political objectives and policy priorities can be implemented. In some policy areas, defence being an obvious example, major sums can be committed by national governments to large companies. In other policy domains which will need to implement EU strategic priorities, delivery will require not just national government action but the involvement of agencies, regional and local authorities, small and medium-sized firms, and the third sector. Multilevel governance, vertical and horizontal, will be critical to this delivery, with regions, whether in devolved or decentralised systems, needing to be involved in the design of strategies and their implementation.

The presumption in the Commission thinking appears to be that the 'RRF model' can be applied across the board to shared management funds. The increasing evidence from the top (e.g. European Court of Auditors), from the ground, and from research indicates that while the RRF clearly has advantages, it also has major weaknesses in terms of accountability, effectiveness and administrative transparency.

### 2. How should a strategic framework be designed to ensure more coherence across EU policies?

To enhance coherence across EU policies, a starting point for the EU is to set out a set of 'missions' for policymakers, stakeholders and the public for the next MFF period and beyond. These missions need to be realistic, easily understood and measurable. Some of these already exist such as the Fit for 55 goals. The question is how they should be translated into workable policy objectives, whether through the European Semester or via strategic guidelines for policies.

From a Cohesion Policy perspective, some EU and national authorities advocate a stronger cohesion element to the European Semester process – either via proactive assessment of the territorial dimension or cohesion implications of all policies, or via more passive requirements such as 'do not harm to cohesion'. Other authorities are less keen on going beyond providing Commission assessment and (limited) guidance on new and existing cohesion challenges (as under the existing European Semester country reports). There is also doubt about the feasibility of substantial changes to the European Semester following the changes made in 2024.

The architecture of policies and funding instruments is integral to these decisions. There is widespread acceptance that the plethora of EU funding instruments needs to be rationalised. Breaking down the barriers between territorial policies (such as between the rural development and cohesion funds), aligning objectives and harmonising rules as much as possible are all seen as desirable to improve synergies. More complex are the mechanisms used to prioritise objectives and deal with trade-offs between priorities; this would be particularly true if a new industrial policy (potentially with a new Competitiveness Fund) is created. The challenge would be how to prevent widening disparities and increasing polarisation from policy objectives aimed at improving EU competitiveness.

Discussions among Member States highlight the importance of top-down strategic priority-setting being combined with a bottom-up approach through regional transition strategies, including within the European Semester process to ensure coherence. This should include a clear, EU-level strategy for cohesion to enhance overall strategic alignment recognising the need for balance between orienting Cohesion Policy to meet EU priorities with the long-term objectives of the policy. There are justifiable concerns about overburdening Cohesion Policy with additional responsibilities, suggesting that balance is needed in strategic coherence and policy expectations. Overall, aligning EU missions and objectives, while managing trade-offs between priorities, is seen as critical for a more cohesive strategic framework.

### 3. Which changes are needed at Member State level to ensure that EU strategic priorities are implemented and effective?

Strategic planning and programming are currently the mechanisms for implementing Cohesion Policy, managed by national and regional managing authorities. While they are often regarded as added value, the negotiation of programmes is prolonged and complex. The Commission President and DG Budget have spoken of 'national plans' linking key reforms and investments, as is the case under the RRF, and setting out joint priorities, including those related to cohesion.

There are several questions about how such national plans would be designed. If they follow the recommendations in the HLG report, programming in 2028-35 will need to be forward-looking and focus on ambitious regional transformation, combining reforms with investment and achieving set milestones and targets. The ambition will need to incorporate essential elements such as capacity building and institutional learning. Again, following the HLG, the plans will need to be more outward looking, mainstreaming more inter-regional cooperation to build networks of knowledge transfer and cooperation on innovation to help build regions into global value chains.

A key concern for many Member States is the future regional role under the 'national plan' model, especially for countries with devolved or decentralised responsibilities for regional and local development. The lessons of the RRF planning process need to be learned: it is widely recognised within the EU and Member States that it was a mistake not to have involved subnational authorities in the planning of NRRPs. Regional involvement in planning/programming is needed to ensure buy-in and effective implementation.

Having tailor-made solutions to regional/local challenges (as set out in the Commission President's Mission letter to Raffaele Fitto) requires a place-based approach, adapting priorities in spending to different regional opportunities and needs. Much has been learned about the use of conditionalities over the past decade and the difficulties of reconciling multiple conditions on spending decisions; the challenges with implementing the current climate conditionalities is just the latest example. A key message from Member States is the need for responsibility and decentralisation in implementing EU strategic goals, ensuring that regions are active partners in delivering on these priorities.

### 4. How should the place-based approach of Cohesion Policy be strengthened?

There seems to be limited appetite to move away from the 'all regions' approach of Cohesion Policy, not least because a continuation of universal eligibility was referenced in the Mission Letter from the Commission President to the new regional policy Commissioner-designate. At the same time, there is a general recognition that the EU needs to facilitate more tailored and place-based support for regions to manage the long-term challenges and transitions.

One way to achieve this is to provide more flexibility for Member States to implement EU funding in different ways to suit the development opportunities and needs of regions, taking account of structural challenges, geographical specificities, the risk of development traps, and institutional capabilities. In doing so, it would be important to retain and strengthen decentralised governance ensuring that regional and local authorities (as well communities and citizens) are partners in the design of strategies and implementation. Simplification is also necessary to effectively pursue a place-based approach, alongside efforts to reduce fragmentation and ensure a critical mass of investments to maximise impact.

There is also increasing recognition of the need to give more attention to sub-regional differences, potentially with an obligation for development strategies to take account of territorial cohesion, reducing disparities *within* as well as *between* regions. A question is whether this needs to be facilitated at EU level with special instruments or preferences for types of regions (e.g. regions undergoing industrial change). Alternatively, Member State authorities could be provided with regulatory options – such as co-financing, a menu of instruments, institutional support – to address intra-regional cohesion themselves in ways which suit local circumstances. Territorial development strategies, such as Integrated Territorial Investments (ITIs) and Interterritorial Innovation Investments (IIIs), as well as inter-regional cooperation between regions, are important for advancing a place-based approach.

A place-based approach is also essential to delivering the Commission commitment in the Mission Letters to promoting a Europe 'closer to citizens', being 'more present on the ground' and a 'culture of participative democracy'. However, citizen participation remains an under-explored area on the debate on Cohesion Policy reform and multilevel governance. The geography of citizen discontent has been a recurring theme in the last two EU Cohesion Reports, linking territorial disparities to trust in the EU. Despite Cohesion Policy's role in reducing disparities, public awareness of EU-funded projects remains low in many countries.[122] This is notable given that citizens have shown interest in the policy and the capacity to engage in discussion about its achievements and governance.[123]

One approach to strengthening citizen engagement and participation through Cohesion Policy would be to embed democratic innovations, such as participatory budgeting and mini-publics, into the policy framework or specific instruments (such as sustainable urban development strategies or the just transition fund), ensuring citizens have a direct voice in decision-making processes.[124]. Such democratic innovations have the potential to bridge the gap between EU priorities and local needs, revitalise the partnership principle and strengthen the legitimacy and effectiveness of the EU.

Cohesion Policy's unique multi-level governance model and partnership principle offers a platform to facilitate these changes, ensuring that citizen participation becomes an integral element of the policy's future.

**5. To achieve simpler and more results-based management, which lessons from the experience of implementing NRRPs are applicable to Cohesion Policy?**

Drawing lessons from the RRF, there is a clear opportunity to simplify Cohesion Policy and focus more on performance-based management. This would involve streamlining administrative processes, enhancing monitoring systems and employing financing-not-linked-to-costs (FNLC). The experience of the NRRPs shows that focusing on measurable outputs can drive more efficient policy implementation although comparative evidence of results and impact remains limited at this stage. Applying RRF lessons to Cohesion Policy will require careful consideration of the challenges associated with managing long-term regional development programmes across the diverse regions of the EU through a place-based approach.

The RRF's emphasis on payments linked to performance is seen as a positive example for improving policy implementation. It shows potential benefits, but not for all types of projects. A key insight from the RRF experience is the value of a faster pace in project implementation with close monitoring of outputs, a lesson that could benefit Cohesion Policy. Speedier processes could enhance the delivery of results and improve the ability to adapt to emerging needs, making regional development efforts more responsive and effective.

However, rigidities in applying the RRF performance-based framework have been noted as a problem, particularly the strict focus by the Commission on the programmed milestones and targets with (sometimes) excessive quantification of deliverables. This may pose difficulties in adapting the RRF's model to Cohesion Policy, where regional variations require tailored approaches, and flexibility is needed to adapt to changes during implementation.

For some countries, the temporary and crisis-focused nature of the RRF limits its direct applicability as a model for Cohesion Policy. The RRF's approach to pre-financing and output management may not easily translate to the long-term, sustained focus required for regional development programmes. Additionally, there is a need to maintain the strengths of partnership-building and capacity development in Cohesion Policy and be careful not to layer new conditions on an already strict conditionality regime in Cohesion Policy.

Simplifying administrative processes through mechanisms like Simplified Cost Options (SCOs) and FNLC is viewed as a potential pathway to reduce bureaucratic burden and increase the focus on outputs and results. However, this requires substantial upfront coordination, particularly with Audit Authorities and the Commission. Simplification must go beyond merely offering flexibility; it should aim to genuinely ease the implementation process. While SCOs can help reduce error rates in managing projects, they are not universally applicable across all Cohesion Policy initiatives. Balancing administrative efficiency with robust oversight remains a priority.

Finally, while the RRF offers valuable insights for simplifying and focusing on outputs and results in Cohesion Policy, applying these lessons requires adapting to the distinct long-term, regional, and structural challenges of the EU's territorial needs and retaining the core governance principle of multilevel governance.

## EoRPA CONSORTIUM

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## Notes

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