

## EU response to emerging challenges

The current megatrends – green and digital transformation, changes in demography and geopolitics – bring numerous economic and social challenges and opportunities that are unevenly regionally distributed across all EU regions. Individual territories in the EU have diverse capacities to adapt to said challenges, disproportionately affecting namely rural and less developed regions. This will likely lead to new, potentially significant, disparities in the EU. Social inequalities weaken the Union’s social bond, drive discontent and undermine democratic values<sup>1</sup>. If disparities are not prevented or effectively solved, the cohesion of the Union, and the future of its building blocks such as the Single market, the Eurozone etc. could be at risk.

The EU should accompany the ongoing transformation with policies which support the capacity to respond in places where it is insufficient, and reduce disparities where they already exist. At the same time, the EU should support the Union’s global sustainable competitiveness by unlocking sustainable growth potential of the strongest European actors.

EU’s cohesion policy already offers funds and tools well designed to meet these goals. An adaptation of its narrative towards providing an **EU framework for leaving no EU region and no person behind in the ongoing transitions**, as well as its relation to other EU policies towards more consistency and **cohesion-aware EU actions**, would increase the efficiency of the overall EU response. This paper focuses on the first of the two adaptations.

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<sup>1</sup> Even if the increase in social inequalities is only perceived, as shown by Capello & Perucca (2019) and Reháč et al. (2020).

## Cohesion policy – towards a true place-based EU policy

A distinctive value added of cohesion policy has been in providing a stable long-term EU framework and financial means for investment in jobs and growth and the delivery of structural reforms, through integrated interventions tailored to Member States and the various regions of the EU. The nature of emerging challenges calls for streamlining this unique element among EU policies and bringing it to the forefront of the new cohesion policy 2027+.

A region's ability depends on its industrial, social and technological structures, the skills of its workforce and innovation ecosystems, demographic and geographical profile as well as on administrative, institutional and governance capacities. A place-based policy acknowledges that development needs of each region require a tailor-made response which is built on analyses based on existing data, knowledge and best practice examples. In principle, additional sectoral restrictions potentially complicate the local effort and ownership to solve a local problem.

This paper argues that future cohesion policy should accommodate additional regional data into policy design and programming process by establishing an ***EU regional transition readiness scoreboard*** to complement the current concept of categories of regions. Existing regional data and indicators most relevant to the current challenges (green & digital transformation, demographic change) would be used to identify concrete development potential and barriers (capabilities and gaps; strengths and weaknesses) of each EU region:

When it comes to **digital transformation**, the Regional Competitiveness Index (European Commission, 2023) can be used as a complex measurement for a region's overall productivity and innovation capacity, while also including dimensions of the quality of infrastructure & education, as well as labour market and digitalisation indicators. To highlight further the digital aspect, the Digital Economy and Society Index (DESI) could also be factored in.

Regarding the **green transformation**, there is currently no standalone aggregate indicator exclusively focusing on environmental quality in EU regions. However, the Social Progress Index (European Commission, 2020) includes a number of environmental quality indicators, such as air pollution and sanity, together with more general quality-of-life metrics, which are also key to Europe's envisioned twin transition post-2027. Even though SPI may not be a perfect standalone metric, it may serve as a fitting compromise for examining not only environmental readiness, but also addressing social and equity concerns, which are themselves important factors influencing cohesion. Alternatively, the Environmental Performance Index (EPI) could be used.

In regards to **demographic decline**, vulnerability of regions could be pointed out, building on the latest Commission communication on "Harnessing Talent in Europe's Regions" and using Demographic Dependency Ratio or Old-age Dependency Ratio.

Using the indices above or their adapted versions in a multidimensional EU scoreboard would allow for the existence of a complex picture of each EU region's degree of preparedness

for the transition challenges ahead. Ideally, these **indicators should also be collected below NUTS 2 level** however, most of the abovementioned indicators are currently available only at NUTS2 or even NUTS1 level. The European Commission should continue its work to maximize the availability and quality of the data at regional level. Difficulties encountered in this effort should be addressed in cooperation with the Member States.

It is necessary to keep in mind that the abovementioned indices overlap in certain areas (e.g. quality of government, higher educational attainment, internet access). In some areas, they attempt to measure similar indicators by using different metrics, as demonstrated by the “(access to) basic education” sub-index in the SPI and the RCI, which have very varying definitions. Another obvious restriction to bear in mind is the time lag – such indexes always show a retrospective picture for a given reference period. The synthetic nature of such composite indicators, by construction, limits their use to policy and programme design tools only, without their transposition into regional eligibility criteria or the allocation method.

While **the EU categories of regions** group EU territories based exclusively on their relative wealth, the use of EU regional transition readiness scoreboard would help identifying multiple similarities across the EU regions according to shared challenges and competencies. Using the two concepts together could address the granularity problem of the three categories of regions and even go beyond the five types of regional problem as described by Professor Storper<sup>2</sup> in his intervention at the first HLG meeting without entering into a lengthy sensitive debate on re-defining the current three categories of the regions. This approach is supported

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<sup>2</sup> superstar metropolitan regions, dynamic middle-sized cities, lagging industrial regions, catching-up regions, middling/average regions

by the finding that the correlation between GDP and the other regional indexes is strong for less developed regions, ambiguous for the transition regions, and quite weak for the more developed ones.

The EU regional transition readiness scoreboard could be the common **EU reference for a place-based cohesion policy narrative and the starting point for programming and partnership processes**, to be organized at the appropriate level (national and/or sub-national). Even if some regions would score identically in one or another dimension of the scoreboard, the stories behind their scores could vary. That's why the EU scoreboard should be contextualized using additional data from the relevant national, regional and local sectorial as well as territorial development strategies. Given the abovementioned limitations of data availability below NUTS2 level, local or sub-regional development needs as defined in territorial instruments (e.g. ITI or CLLD) should play a key role in guiding the programming exercise. In order to reinforce the place based dimension of the policy, building on the Territorial Just Transition Plans, the future programming process could be driven by the need to agree one or more transition plan(s) of one or more NUTS3 regions or parts thereof.

A specific programming stream should nonetheless remain for national investments covering the whole area of the Member States related to national sectoral reforms and the achievement of national and European goals and commitments (i.e. national social and transport policies). Such a **combined approach** would allow setting more concrete and clear policy goals at the level of the Union, individual Member States as well as their regions.

Over time, the EU regional transition readiness scoreboard could be used potentially to reinforce the regional dimension of the European semester. It could also serve for establishing related cooperation networks among regions from different Member States, building on the established concept of smart specialisation strategies, possibly allowing for inter-regional cooperation not limited to immediate geographical adjacency, and facilitate knowledge transfer.

As the *EU regional transition readiness scoreboard* would capture the regional performance in the key aspects related to most of the EU challenges expected to be addressed by the future cohesion policy (green & digital transformation, demographic change), it could ex ante determine, to a large extent, the thematic concentration of EU support in each EU region. As a balance would need to be reached between a strengthened place-based approach and the contribution to the EU's thematic priorities, the **role of obligatory EU minimal thematic concentration requirements** would have to be reassessed towards providing much more **operational flexibility** to support all justified actions directly linked to the region's transformation readiness.

The **geographical coverage of cohesion policy** should also mirror the diversity of challenges faced by all type of EU regions. Some least developed rural and peripheral areas with serious development barriers or traps<sup>3</sup> and little diversification opportunities lack capacity to address ongoing transformations and are pulled by developments. These places require special assistance for designing simple development pathways focused on improving the long-term

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<sup>3</sup> The Development Trap (DT1) index proposed by Professor Iammarino at the third HLG session could be a helpful additional diagnostic tool for regions in development and/or social traps

trend in the labour market, namely unemployment rates, wage levels, and job availability for the youth. Examples may include localizing profits from producing renewable energy, benefiting from re-shoring of activities, increasing digital skills, social housing schemes, etc. Similar specific attention should be given to the regions with significant share of marginalised Roma communities and other vulnerable social groups. On the other hand, dynamic urban regions often deal with tacit vulnerabilities like low level of tolerance and trust in society, or poor quality of environment. For the most innovative regions, positive incentives could be introduced with a view of producing projects with spill-over effects to related less developed regions, while avoiding relocation of activity. More developed regions, as well as more developed metropolitan areas, often host noticeable share of their population at risk of poverty, with the risk of further increasing social disparities. These examples justify maintaining a wide geographical coverage of cohesion policy in the future, potentially eligible to all EU regions, while focussing on specific territories affected by identified challenges.

As mentioned above, strengthening the place-based dimension of cohesion policy should steer the programming of cohesion policy resources but should be **decoupled from the cohesion allocation method**. While GDP and GNI in PPS have fallen largely short of capturing the nature of current disparities and development needs, they are still the most methodologically credible and comparable indicators for establishing the national allocations of Member states as well as for defining the categories of regions. In this regard, the feasibility of inputting price levels at the regional level could be further explored, with a view to building regional PPS (purchasing power standards) and hence better capturing the accuracy of purchasing power

than national PPPs, in particular in Member States with wide internal disparities.

Finally, the uneven convergence performance of regions, amongst the largest beneficiaries of cohesion policy, over the last decades, indicate that investments alone are insufficiently effective, if they are not carried out in a growth-enabling environment. This is corroborated by academic work, pointing to the need to a better link investment and reforms. They encompass both relevant sectoral reforms and measures to improve the effectiveness and **quality of governance, notably at regional and local levels.** In this context, among other elements, investment conditions of the sub-national government, quality of local and regional government, and existing cooperation platforms among levels of government in Member States could be potentially explored.



## Questions for the debate

1. Should place-based approach become the main determinant for programming of future cohesion policy? How could such programming process be better steered, for example by the proposed *EU regional transition readiness scoreboard*? What should be the balance between a strengthened place-based approach and the contribution to the EU's thematic priorities within the proposed combined approach to cohesion policy programming? To what extent should the interventions tailor-made to individual regions be subject to limitations of EU-level thematic requirements?
2. Without prejudice to the discussions on the next Multiannual Financial Framework post-2027;
  - a. do you agree that the levels of GDP in PPS should remain the main indicator determining the distribution of cohesion policy funding among Member States as well as for defining categories of regions?
  - b. what should be the geographical coverage of the future cohesion policy? How can its support be better modulated to specific regional and territorial needs?
3. In order to enhance its effectiveness, should the future cohesion policy include relevant considerations regarding the quality of sub-national governance or the degree of decentralisation?

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