



# Issue paper 2 – Enhancing resilience of regions against emerging challenges

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## **Group of high-level specialists on the future of Cohesion Policy**

The European Commission, the Directorate-General Regional and Urban Policy (lead) and the Directorate-General Employment, Social Affairs and Inclusion (associated) have set up a Reflection Group on the future of Cohesion Policy. The group includes high-level members from academia and practice and in 2023 will meet nine times to reflect on current and future needs and the functioning of Cohesion Policy.

The group will offer conclusions and recommendations that will feed the reflection process on Cohesion Policy post-2027 including through the 9<sup>th</sup> Cohesion Report in 2024 and the mid-term review of Cohesion Policy programmes in 2025.

## **Disclaimer**

This paper is an independent input to the reflection paper. The opinions expressed in this paper are the sole responsibility of the authors and do not represent the official position of the European Commission.

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## Issue paper 2:

# **Reassessing the role of Cohesion Policy to enhance the resilience of regions to emerging challenges**

## **1 Background and objectives**

The Eighth Cohesion Report highlights climate change, digital transition and technological transformations, pressure on democracy, shifts in the global economy and demographic trends as major interdependent challenges impacting the EU's social, economic and territorial cohesion.

In a context of major uncertainties, notably linked to the global and security outlook, the EU has committed to undergo unprecedented transformations, driven by the green and digital transitions. These are expected to strengthen our social and economic resilience by building a future proof growth dynamic.

The current design of Cohesion Policy will continue to support EU regions in achieving this ambitious transformation.

Regions' resilience and ability to respond successfully to these challenges are directly related to their ability to compete effectively in economic contexts and markets that are continuously changing and adapt in a socially sustainable manner. Yet, regions are exposed differently to these challenges, with the risk of further widening territorial disparities, undermining the internal market and possibly fuelling political discontent. Some regions are less equipped to engage in technological and digital transformation than others. This may be due to lower innovation performance and weaker endowment in skills and human capital. Other regions are more vulnerable to the climate transition, due for instance to their higher reliance on heavily emitting industries. Some regions suffer from more pronounced demographic decline, with a shrinking labour force hampering their competitiveness. Others have large pockets of social exclusion or poverty. Others yet suffer from over-specialisation and find it very difficult to diversify their economic basis. Unequal opportunities across territories and different groups of people, accentuate these problems and put pressure on democracy.

Cohesion Policy has already developed some integrated mechanisms to tackle some of these challenges, including the promotion of differentiated regional smart specialisation strategies, or the creation of the Just Transition Fund (JTF), which addresses, in the most affected regions, the social and economic consequences of the transition to a carbon-neutral economy. However, the amplitude of these challenges and their territorial impact are expected to largely expand in the next decade, making the case for place-based policies even stronger and, possibly, requiring a fresh approach to existing mechanisms.

Over the past two decades, globalisation has reshaped value chains, changed trade patterns. Although its benefits have been wide, it also had some consequences, such as deindustrialisation of several European regions. A new geopolitical reality and the ongoing industrial revolution centred on clean technology, digitalisation and the expansion of AI are reshaping past trends. Europe is responding to these trends. The recently adopted Green Industrial Plan will create new opportunities but also presents risks to cohesion.

The objective of this paper is to i) explore the nature of current and emerging challenges, and ii) how regions can manage these challenges. Cohesion Policy has played a major role in supporting public and private investment, and promoting human capital and social inclusion. The key issue for discussion at the meeting is how Cohesion Policy can have more impact on enhancing the resilience of regions in light of these challenges.

## **2 Embracing transitions and strengthening resilience**

The preparedness of EU regions to reap the opportunities brought by structural transformations and address related challenges varies greatly. A region's ability depends on industrial and technological structures and innovation ecosystems, demographic profile as well as on administrative, institutional and governance capacities. In addition, some areas have geographical constraints such as remoteness and insularity. These factors shape regions' competitiveness potential, their vulnerability to shocks and their capacity to adapt to changing contexts. At the same time, economic and social imbalances are expected to increase in the course of the twin transition, raising questions about a fair distribution of transition costs and benefits.

Through tailored support, Cohesion Policy has effectively contributed to reaping regions' potential and to strengthening their resilience to emerging challenges and accompany regions in their transitions. However, it is important to reassess whether the scope of policy actions will be sufficient to build effective adaptation capabilities in all regions.

**Green and climate transition.** The scale of climate-transition will be large, will affect territories unevenly, depending on their own characteristics, and will touch most aspects of the economic system. In particular, it will lead to major transformations of industrial production processes, including relocation of activities and reshaping of value chains. Peripheral regions may be affected by increasing transport costs, with outermost regions particularly at risk. As also highlighted in the Council Recommendation on "ensuring a fair transition towards climate neutrality", the creation of good quality new jobs, the maintenance of good working conditions as well as inclusive access to education, training and life-long learning in green skills will be key to ensure that the transition is socially fair and economically successful for all territories.

Cohesion Policy supports investments in sustainable energy, the environment, resource efficiency, climate adaptation and mitigation, and sustainable urban mobility – in view of attaining a carbon-neutral society. It has massively invested in infrastructure, building a cleaner and safer environment and will continue to do so in the 2021-27 period. Interreg programmes and macroregional strategies bring the necessary cooperation dimension to the green and climate transition, where both challenges and solutions clearly extend beyond the national boundaries.

**Digital transition.** Digitalisation will bring important economic opportunities, in particular in terms of increased productivity of economic activities, better quality and access to (public) services, and job opportunities in more remote areas and for people who would not be able to fully participate in the labour market. Yet, the digital transition also triggers risks for social and territorial divides, with labour market effects resulting from automation and artificial intelligence, the uneven access to digital services and uneven digital skills of workers.

To help make Europe fit for the digital age and endow businesses, the public sector and people with a new generation of technologies, Cohesion Policy supports digital investments in the current programmes aiming at bridging the digital divide. Support is provided for digitalisation in firms and in the public sector, improving access to e-government and e-health, enhancing the digital skills of people, and fostering broadband development in remote and rural regions, so that no EU region is left behind.

Cohesion Policy will need to ensure that the benefits of digitalisation are effectively and fairly distributed – in a context where new disruptive technologies emerge, the workforce ages and labour market participation of those lacking an updated skillset is hindered. The access to training and upskilling for newly created jobs and tasks will be key to ensure that regions can keep up with technological change and reap the benefits it brings, while societal acceptance of new technologies.

**Innovation.** To develop and reap the gains of innovation it is necessary to foster and strengthen innovation ecosystems, start-ups and the business environment, develop skills in research and innovation, and ensure the roll-out and deployment of innovations beyond the frontier.

Cohesion Policy invests considerable amounts in innovation and its interventions are driven by smart specialisation strategies (S3). These have been gradually integrated into the policy and are now recognised as contributing to reinforcing regional ecosystems and economic diversification.

Regional innovation performance varies largely; it is significantly lower in less developed regions than in more developed ones thus hampering their convergence potential. Many middle-income regions appear to be falling into development traps with the inability to build the critical mass of knowledge and skills necessary to compete in the global economy. The same regions may also be particularly affected by the demographic transition. To offset the impact of their shrinking working age

population, in addition to the efforts to train and bring into employment categories of people with lower employment rates (women, the young, immigrants, persons with low educational attainment), higher innovation efforts would be required to increase productivity. This is quite a challenge given their overall lower performance.

It is necessary to explore how Cohesion Policy can exploit the untapped innovation potential in less developed and development trapped territories. This is directly linked to the territories' capacity to keep and attract high value-added and high-productivity economic activities as well as people with high education levels and innovation potential. The approach that Cohesion Policy has adopted since 2014 has been smart specialisation, building on regional specific assets and potential. However, innovation in the future is expected to be disruptive and non-linear, thus creating greater uncertainty for regional policy makers.

Cohesion policy contribution to unlock the innovation potential of less developed and development trapped territories must be defined in the broader context of global competition which requires the EU to strengthen its innovation capacity through addressing the whole value chain and providing support for its ambitious industrial agenda, the Green Deal Industrial Plan.

**Demographic change.** After a long period of population growth, the EU enters a new era of demographic change. This is driven by three major trends: the reduction of the working-age population, an ageing society and population decline. Ageing and population shrinkage will affect most regions, especially rural and lagging ones. By 2050 the working age population will shrink by some 35 million. Regions impacted by the reduction of their working age population will need to increase the labour market participation of under-represented groups and boost productivity with a smaller number of workers and also find new ways to make themselves attractive. This will require investments and reforms in the labour market and the education system, with a view to improving the development of their talents, as well as addressing obstacles to participation in the labour market. The recent Commission Communication "Harnessing Talent in Europe's Regions"<sup>1</sup> has put forward the corresponding challenges and analysed the risks for cohesion, while identifying several regions confronted with talent development traps.

Given the irreversibility of these demographic trends, regions also need to adapt their territorial organisation and elaborate new approaches to demographic transition through place-based policies focusing on necessary measures and investments to strengthen innovation ecosystems, reinforce vocational training and adapt local services.

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<sup>1</sup> [Inforegio - Harnessing talent in Europe's regions \(europa.eu\)](#)

The role of Cohesion Policy in addressing these challenges will need to be reinforced in the future, regarding both mitigation and adaptation measures in the context of demographic challenges.

**Skills gap.** The ability of the European Union to take up the above-mentioned challenges and maintain its standard of living largely depends on the availability of a skilled labour force, matching the continuously evolving demand. The skills and competences of the workforce must correspond to the needs of changing economies to improve the innovation capacity of the EU

Reforms in the education and training systems need to be accompanied by investments at all levels, equal access to quality education and training, including upskilling, reskilling and lifelong learning for all. Beyond education, investment in children and youth will be crucial for long-term growth.

Agility and adaptability of labour markets need reinforcement, building on untapped potential for increasing employment rates, notably among women, young people and vulnerable groups. This requires promoting services that are necessary for their integration into the labour market. The potential of cross-border labour markets, strongly underdeveloped due to legal and administrative barriers, can be enhanced through better cooperation across borders and all levels of governance.

Cohesion Policy will play a crucial role in ensuring that all regions are equipped to counteract the skill shortages which would hinder their capacity to address these challenges and help support their development potential.

### **Questions for debate**

- How to adapt Cohesion Policy to maximise its potential for realising structural change so that all regions are appropriately equipped to reap the benefits of the EU's green and digital transitions and to face present and forthcoming geo-economic and demographic challenges and increased global industrial competition?
- How can Cohesion Policy ensure that such transitions are fair for people and balanced for all regions?
- Beyond investments, how can the policy help supporting/promoting enabling measures at regional and sub-regional levels?