



# Issue paper 3 – Addressing different development needs of European regions

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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 High-level Group on the future of Cohesion Policy. The group includes 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**

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 3:

# Addressing different development needs of European regions

## 1 Background and objectives

This paper provides an overview of different economic, social and territorial development needs and approaches for which Cohesion Policy provides support.

Cohesion Policy offers tailored support to places and people with a range of instruments and place-based approaches. A key issue for discussion at the meeting is how Cohesion Policy can be further enhanced to tailor support to specific development needs, taking into account the diversity of starting positions and the asymmetric impact of ongoing transitions and current and future external shocks.

### *1.1 EU regions have different development needs*

Regions across the EU vary in their economic potential and the opportunities they offer their citizens, and face different challenges and bottlenecks depending on factors such as their level of development, recent and historical economic dynamism, their location, and their demographic status and population density.

The Eighth Cohesion Report highlights that territorial diversity and different territorial capabilities give rise to distinct present and future development needs, but also unique potential to cope with those challenges. Addressing this widespread diversity in needs and potential and the related challenges to economic, social and territorial cohesion is at the very heart of Cohesion Policy.

Cohesion Policy also addresses social challenges affecting certain groups of people addressed through national level actions, as part of implementing the European pillar of social rights. This is a broad concern that crosses through territorial boundaries. These actions should not ignore their asymmetric territorial impact even when designed and implemented at national level with specific groups or issues as targets.

Both dimensions are essential to accelerate the green and digital transitions and address the challenges of demographic change.

**Less developed regions are of specific concern.** They may need new diverse, tailored approaches to stimulate their economic prospects and get out of developments traps or reduce the risk of falling into one. Over the past programming periods, GDP per head in less developed regions has been converging towards the EU average through faster productivity growth and increased employment. However, low cost-advantages and returns on infrastructure and other investment, including social investment, may shrink over time. This would be the case in particular if real wages and other production costs

grow considerably faster than productivity. As regions develop, they need to move away from a model based on cheap labour. This requires diversifying the industrial base and investing in skills development to increase productivity.

The situation of more developed region is also heterogeneous, as not all of them have managed to remain economically dynamic in recent times.

**Peripheral regions**, including border regions and outermost regions, also face particular challenges due to their distance to markets and places offering advanced services. They cover very diverse territories, such as inner peripheries in Southern and South Eastern Europe, remote and sparsely populated areas in northern countries, or **Outermost regions**, which, in particular, face an accumulation of permanent constraints linked to the small size of domestic economies, great distance from the European continent, location near third countries, double insularity for most of them, exposure to natural disasters, and little diversification of the productive sector.

Moreover, many EU regions have witnessed considerable stagnation in their economic trajectories or even decline. They are caught in a development trap i.e., they perform worse than they did in the past and relative to their national and EU peers in economic, employment and productivity growth. The risk of falling into a development trap affects regions at all levels of development – altogether about half of less developed, several transition and some more developed regions. Although diverse, **development-trapped regions** tend to share some characteristics: they have a smaller share of industrial output, weaker public governance, less human capital and less performing innovation ecosystems. Sub-par economic performance and a lack of employment opportunities are also causing social costs and political resentment, leading to a growing geography of discontent.

There are equally important social and development challenges at territorial levels below NUTS2. Many of the most prosperous **cities and metropolitan areas** also have challenges of their own, such as considerable pockets of poverty, housing problems, traffic congestion and poor air quality generating distinctive challenges for social and economic cohesion.

Most of the times these challenges are themselves a result of a inharmonious territorial development questioning in turn, *inter alia*, the need to deepen the linkages within functional urban areas, so that economic and social benefits are spread more evenly across the entire territory.

**Rural and urban areas** are mutually interdependent and relations between them have evolved substantially in recent decades. Improved transport and communication technology, as well as changes in land use, are some of the factors that reinforced mobility between rural and urban areas. The short-term impact of the COVID-19 pandemic – that encouraged some people to move out of cities – further contributed to accelerate the interdependence between the urban and the

rural within the EU. Nevertheless, rural and urban areas often face divergent development prospects, which can contribute to political polarisation, in particular due to the asymmetrical effects of the green, digital and demographic transitions. To better exploit complementarities between rural and urban areas it is important to strengthen links between them within functional areas and support smaller cities and towns in their efforts to provide essential services for the surrounding rural areas.

Most these above challenges are often themselves a result of an inharmonious territorial development requiring, among others, deepening the linkages within functional urban areas, so that economic and social benefits are spread more evenly across the entire territory.

## ***1.2 Cohesion Policy targets the specific development needs of places and people***

The above challenges require policies that are place-based, tailored to the territory concerned and its people i.e. often addressing territories below the regional level (NUTS 2). Cohesion Policy offers the possibility to focus interventions on specific development strategies with a range of territorially targeted instruments, including territorial cooperation.

**Smart specialisation strategies** are place-based strategies that aim at stimulating the development of regional innovation ecosystems. They have largely steered Cohesion Policy support in the area of research and innovation since 2014, regularly gaining maturity and importance, with enhanced ownership by regional and local authorities, although disparities remain.<sup>1</sup> Over 180 regional and national Smart Specialisation Strategies have been developed, focusing innovation efforts on sectors identified based on the local strength.<sup>2</sup>

**Territorial Just Transition Plans.** As part of the European Green Deal, the Just Transition Mechanism (JTM) was set up to alleviate the social and economic impacts of the climate transition in the most vulnerable territories. The implementation of the three pillars<sup>3</sup> of the mechanism is driven by Territorial Just Transition Plans (TJTP) prepared by Member States in dialogue with relevant national, regional and local partners. The TJTPs identify the socio-economic challenges stemming from the decarbonisation of the economy to establish development needs and corresponding policy measures. It was seen by stakeholders as a ground-breaking model for the territorialisation of climate policies and is currently being used as inspiration for the Social Climate Plans<sup>4</sup>. The broad transformations related to the European Green Deal may exceed, in terms

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<sup>1</sup> As illustrated by the uneven fulfilment of the applicable enabling conditions related to their governance mechanisms

<sup>2</sup> See also <https://s3platform.jrc.ec.europa.eu/>

<sup>3</sup> The just transition Fund, the Just transition scheme under InvestEU and the Public Sector Loan Facility

<sup>4</sup> <https://cohesiondata.ec.europa.eu/stories/s/28yb-762c>

of scope and impact, the challenges initially addressed when setting up the JTM, with potentially uneven distribution of the economic benefits and costs that will be the outcome of the green transition. Yet, its governance model seems to be an effective blueprint for place-based policies.

**Territorial instruments.** Cohesion Policy may be implemented through territorial instruments such as Community-led Local Development (CLLD) and Integrated Territorial Investments (ITI), completed by other national territorial instruments, which also link to Territorial Agenda 2030<sup>5</sup>. Their deployment is underpinned by territorial strategies, mobilising local potential based on a bottom-up participatory and area-based approach.

**National policy approaches.** Cohesion Policy also intervenes at a national level. Whilst the institutional arrangements of Member States differ, investing in people through employment policy, education and skills development as well as social inclusion pathways is often driven forward from the national level, together a strong local stakeholder involvement – which is yet not always ensured.

## 2 Better tailored support to specific needs

Cohesion Policy has been covering all regions and offers multiple possibilities for targeting investments through shared management, the partnership principle, programming and various territorial instruments. It is crucial to explore what can be done – perhaps differently - to strengthen place-based or place-sensitive approaches – with a view to providing for more tailored support, addressing the specific development needs of people and places as well as the impacts of green and digital transitions, demographic change and other shocks, while learning the lessons so far.

The set of territorial challenges identified in section 1.1 calls for a reflection on the need to expand, modernise or review the range of instruments and approaches, with a stronger focus on capacity, interregional linkages and opportunities for citizens beyond simply investment. This could involve the following:

- Creating new types of economic perspective for less developed, peripheral and outermost regions;
- Encouraging initiatives to carefully identify and address the specific needs of regions and territories in development traps and help them overcome their challenges;
- Addressing the rural-urban divide by
  - Strengthening rural-urban links and the role of smaller cities and towns in supporting rural areas and boosting regional economic development;

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<sup>5</sup> See <https://territorialagenda.eu/>

- Reinforcing links within functional areas to benefit both urban and rural residents;
- Reassessing the role of large cities and their metropolitan regions, as well as of medium-sized cities as regional and national drivers of economic development and how to use that potential for a more territorially balanced growth model.
- Ensuring sustainability of economic development and catching up by
  - Investing more in sustainable community building and local initiatives;
  - Increasing investments in regional and local human capital.
- Enhancing the resilience of less developed and peripheral regions through future proof diversification of their economic fabrics;
- Strengthening further the mainstreaming of outermost regions concerns in all Cohesion Policy actions;
- Promoting joint development and better governance in cross-border functional areas (“bassins de vie transfrontaliers”) thereby better exploiting their shared potential;
- Strengthen the administrative capacity of the different levels of government, beneficiaries and other national, regional and local stakeholders, and provide more tailored technical support to improve the delivery of the policy on the ground;
- Further engaging local actors to strengthen the effectiveness of the partnership principle in Cohesion Policy. This can help address pressure on democracy by increasing ownership of EU policies.

### **Questions for debate**

- Should Cohesion Policy support and objectives be further differentiated with regard to specific needs of regions, territories and persons? Should in particular the policy support all regions and rely on the same delivery mode for all? Should the role of the national level evolve in this context?
- How could Cohesion Policy be adapted to better address the varied development needs of territories – i.e. less developed, those facing transitions, rural, border, peripheral and outermost regions, and those persistently in development traps?
- How to strike the right balance between the support to EU common sectoral objectives and priorities and place based and territorially tailored approach?