



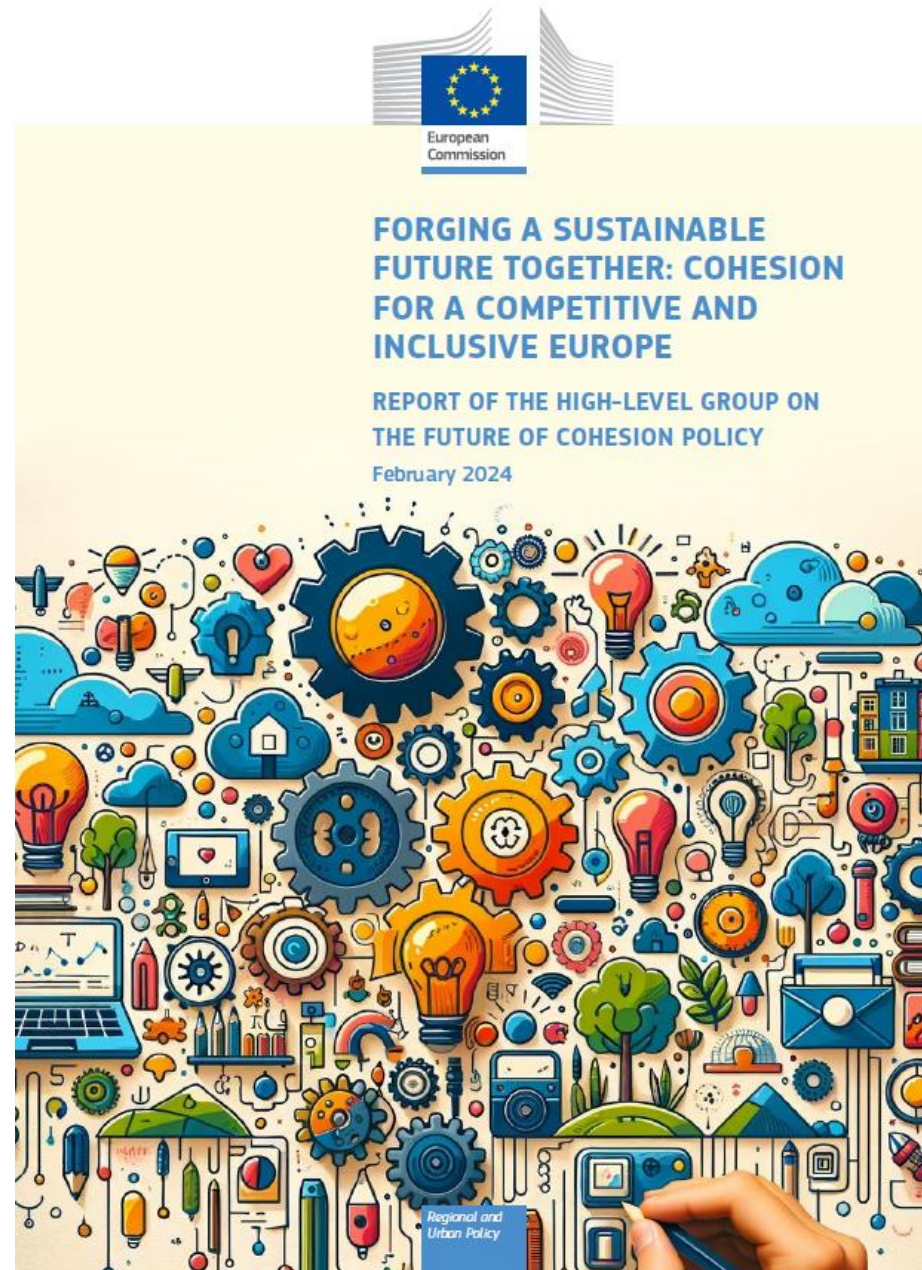
THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Reflections on the Future of Cohesion Policy

Riccardo Crescenzi

London School of Economics

The starting point ... February 2024



Key questions driving the Report



Why do we need Cohesion?



How should it work?



What Cohesion Policy?

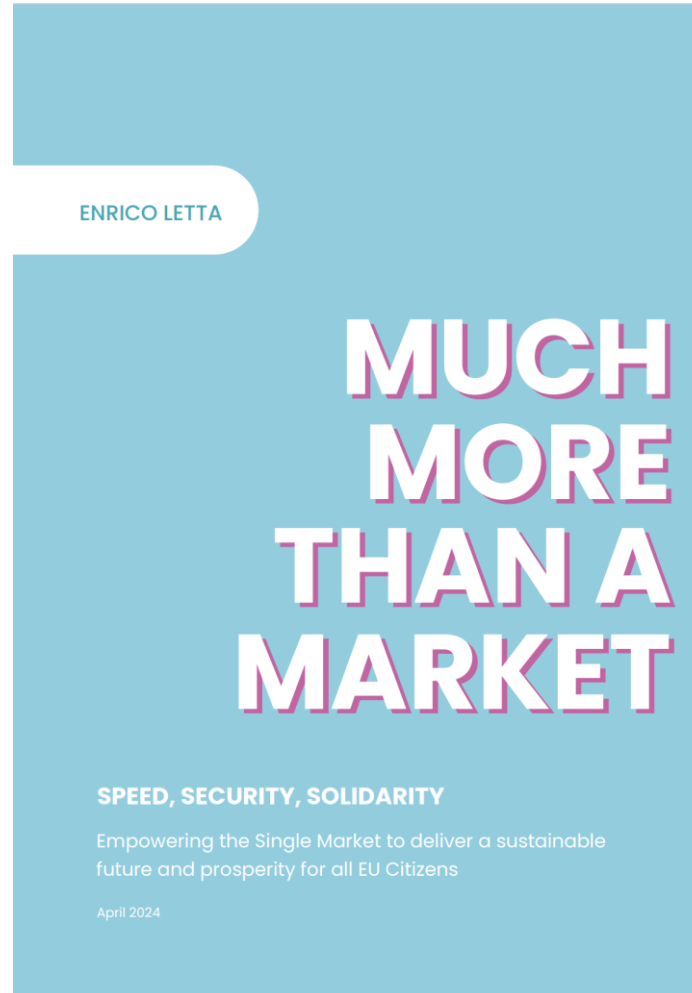
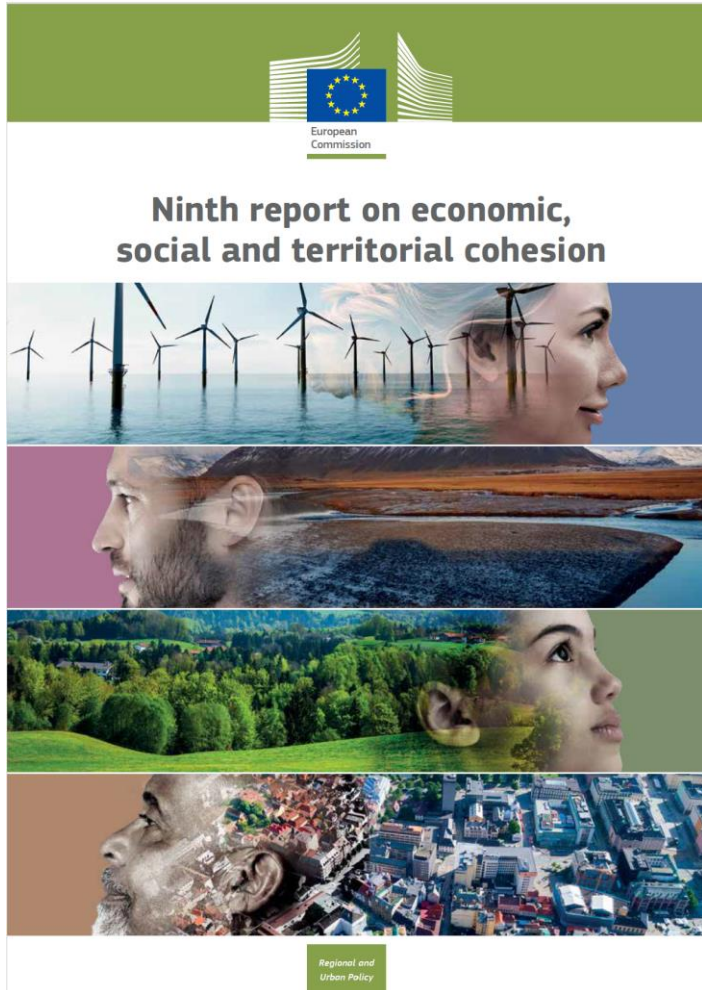


With whom should it work?



Enlargement

A lot has changed since February: Three 'agenda setting' Reports



NEWS > COMPETITION AND INDUSTRIAL POLICY

Draghi's EU competitiveness plan set to be delayed until September

Von der Leyen likely won't have time to focus on Mario Draghi's report until after the summer as she's so focused on winning her second term.

[POLITICO](#) [Home](#) [Latest news](#) [France elections](#) [UK general election](#) [EU election re](#)



- The **'Future of Cohesion Policy'** in light of:
 - The evolving debate on the **Single Market** and **EU Competitiveness**
 - The rapidly **changing economic and political environment**
 - **Italy's** position
- **'What'**: The 'new' and 'old' challenges in charts
- **'How'**:
 - Cohesion: Keep the focus on less developed regions
 - Competitiveness: Address the challenges by mobilising private capital (investment policy)
 - New governance: simplified and streamlined procedures, performance-oriented and evidence-based policy-learning
- **'With whom'**
 - Work in tandem with other national and EU policies
- Conclusion: it is impact that matters!

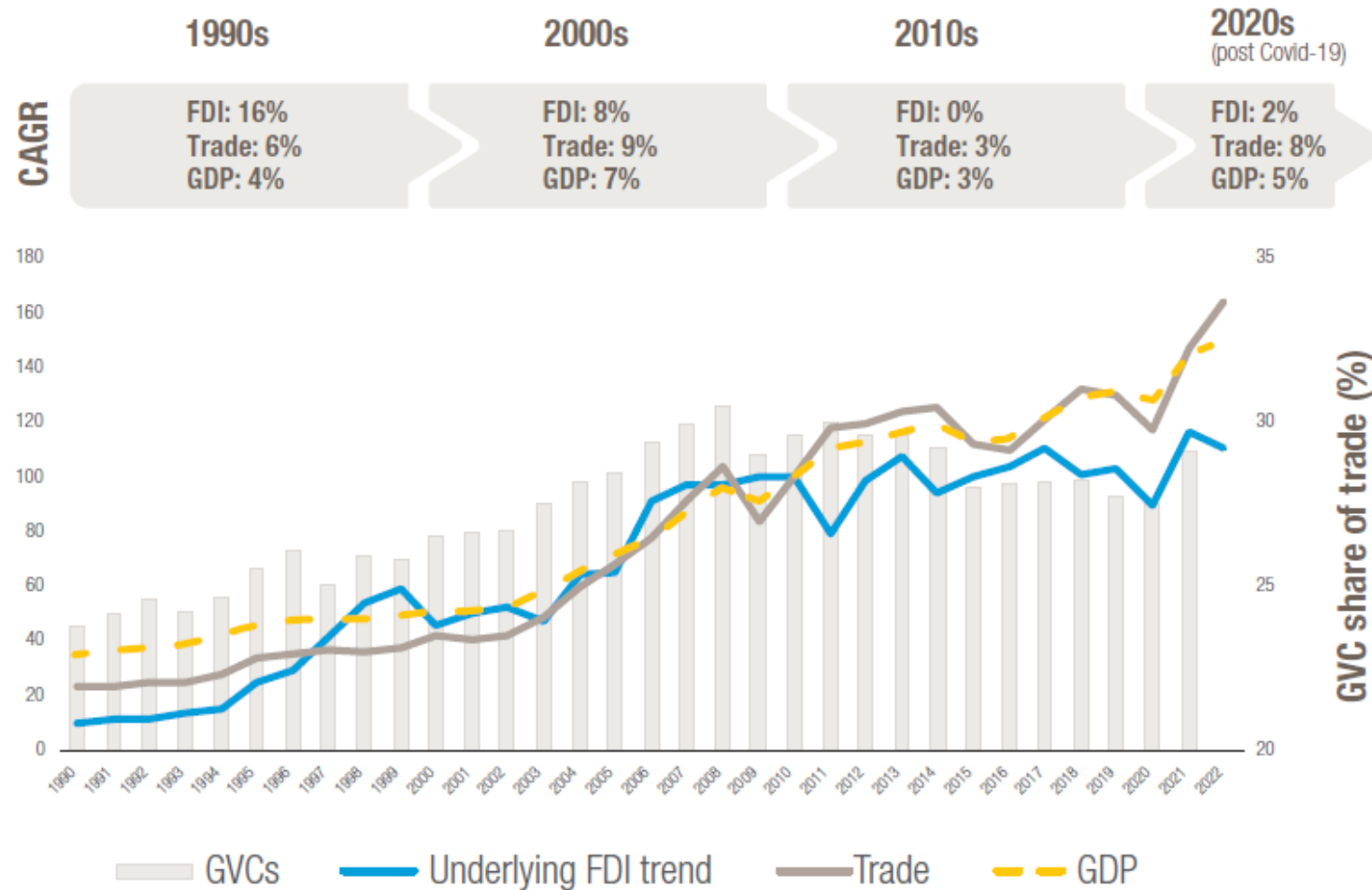
What: The 'new' and 'old' challenges in charts

Challenge 1 – Economic (dis)Integration, Globalisation and the Single Market

Economic (de)globalisation and the single market: a new world

FDI and GVCs lost pace with trade and GDP growth around 2010

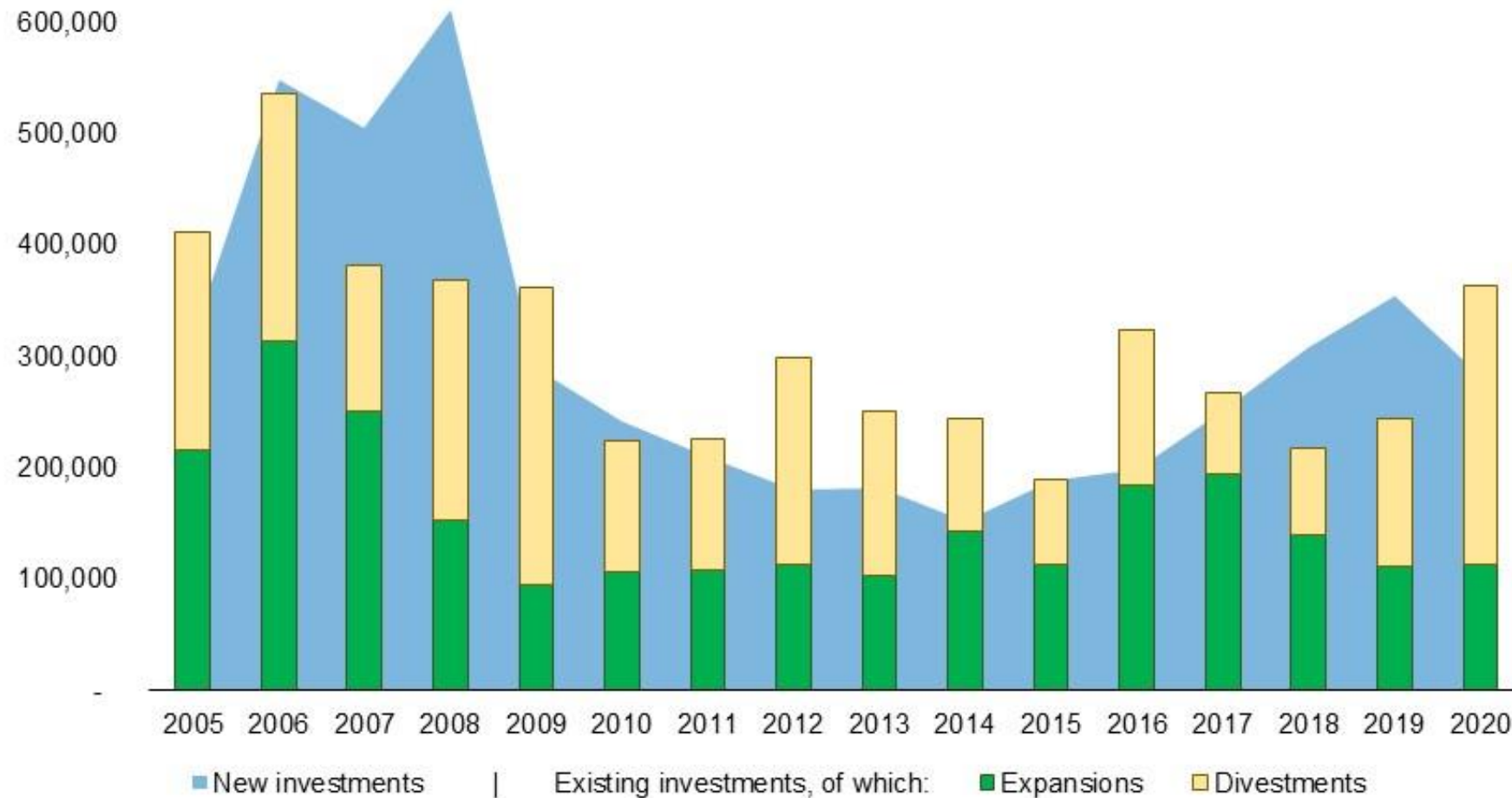
FDI, trade and GDP trends, indexed 2010 = 100



Source: UNCTAD, based on Eora26 and Asian Development Bank (ADB) input-output tables.

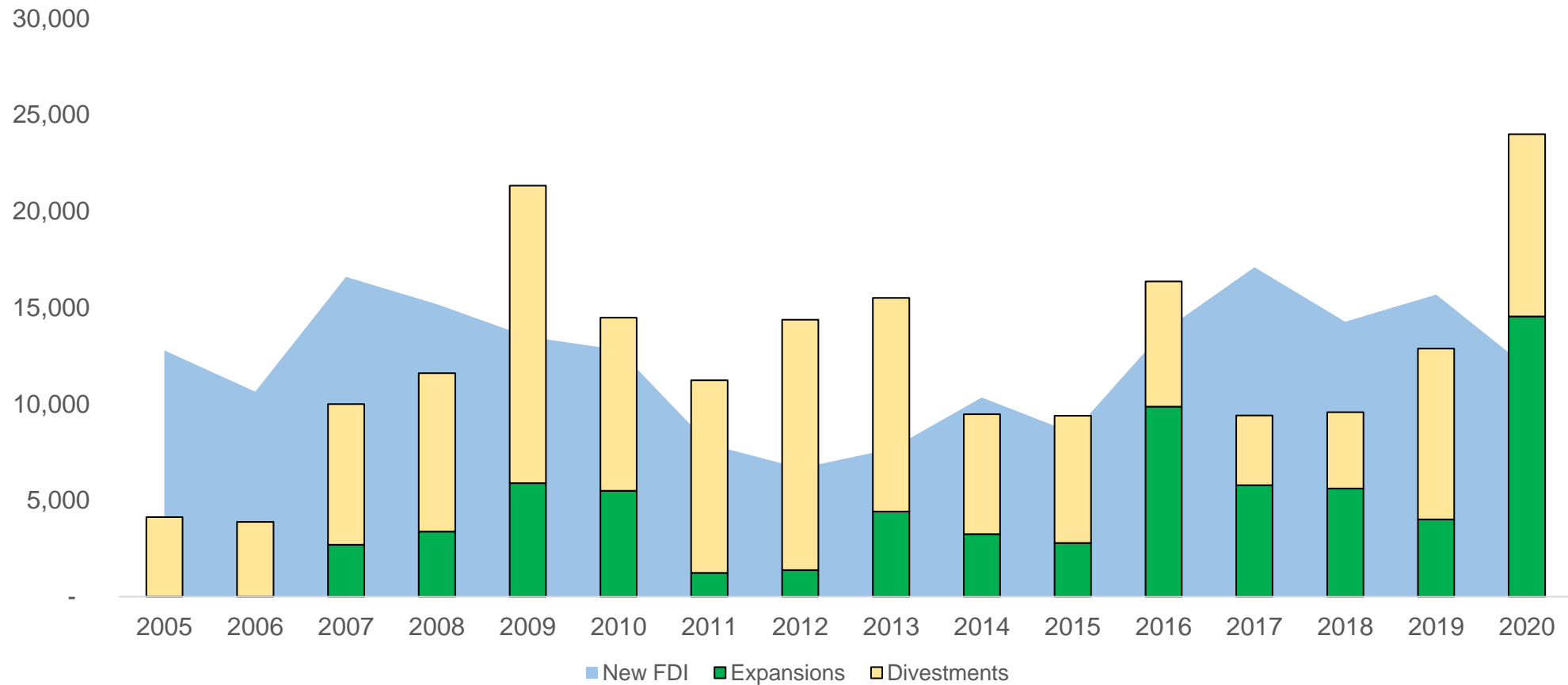
The single market and private capital: MNE Expansions and Divestments in Europe

**Number of jobs created/lost by MNCs in EU27+UK, by year:
new FDI, Expansions & Divestments**



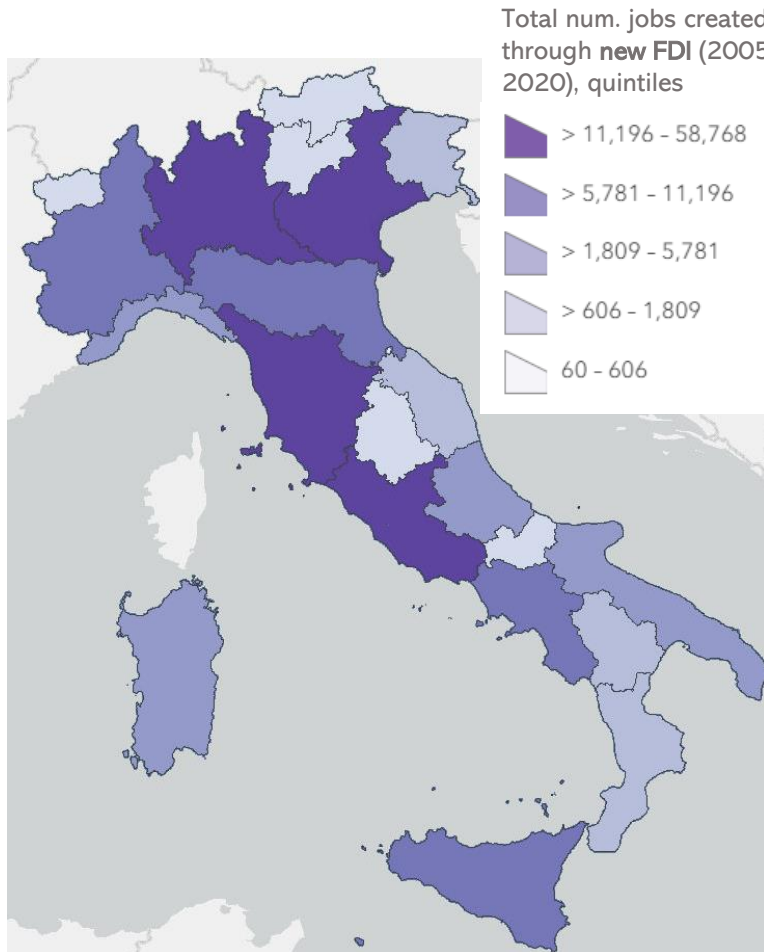
The single market and private capital: MNE Expansions and Divestments in Italy

Num. jobs created/lost through FDI projects in Italy, by year: **new FDI** projects, **expansions** on existing projects, & **divestments** of existing projects

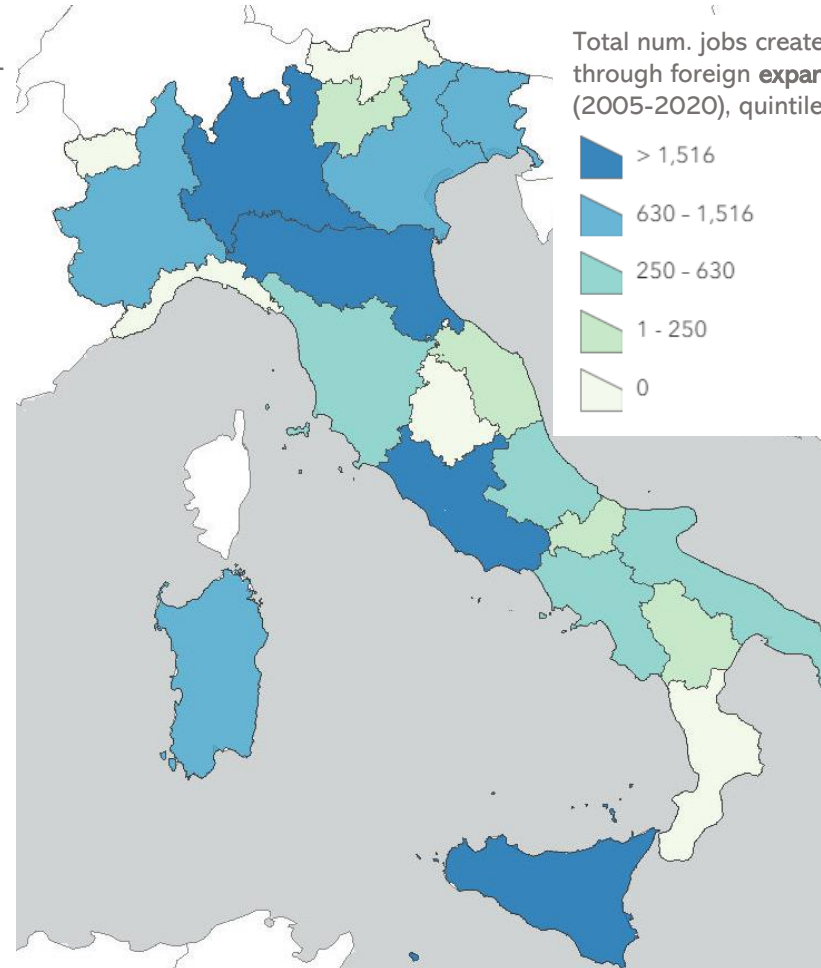


The single market and private capital: MNE Expansions and Divestments in Italy

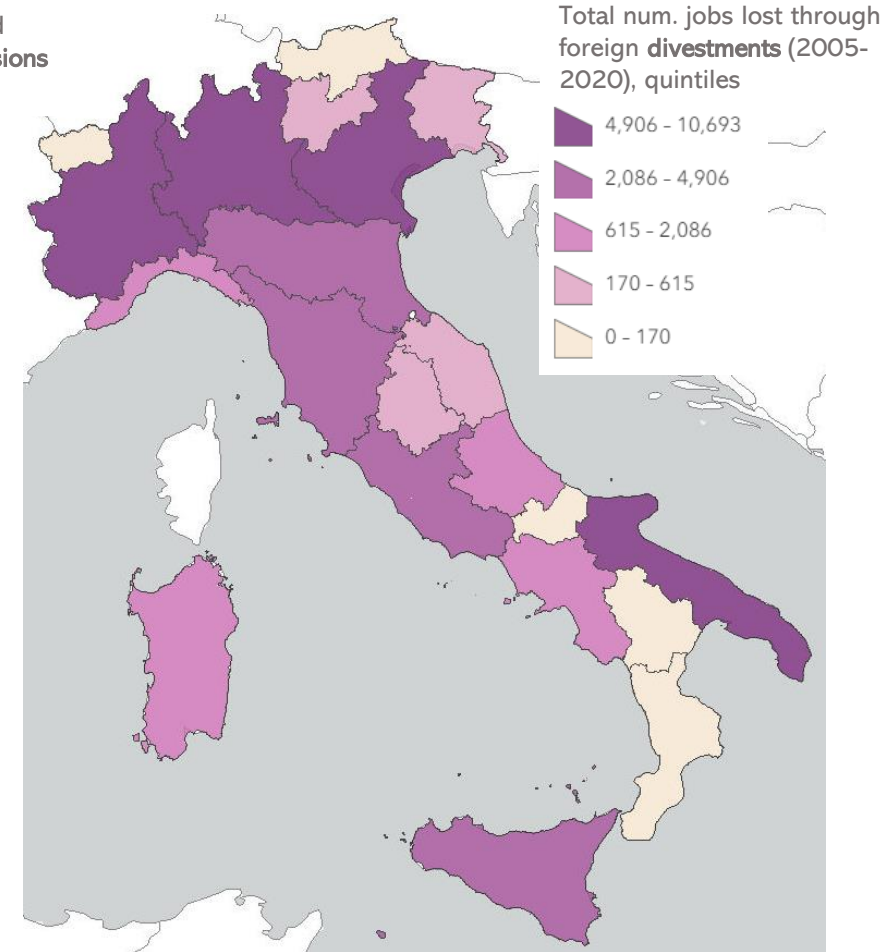
New FDI by MNEs in Italy



FDI expansions by MNEs in Italy



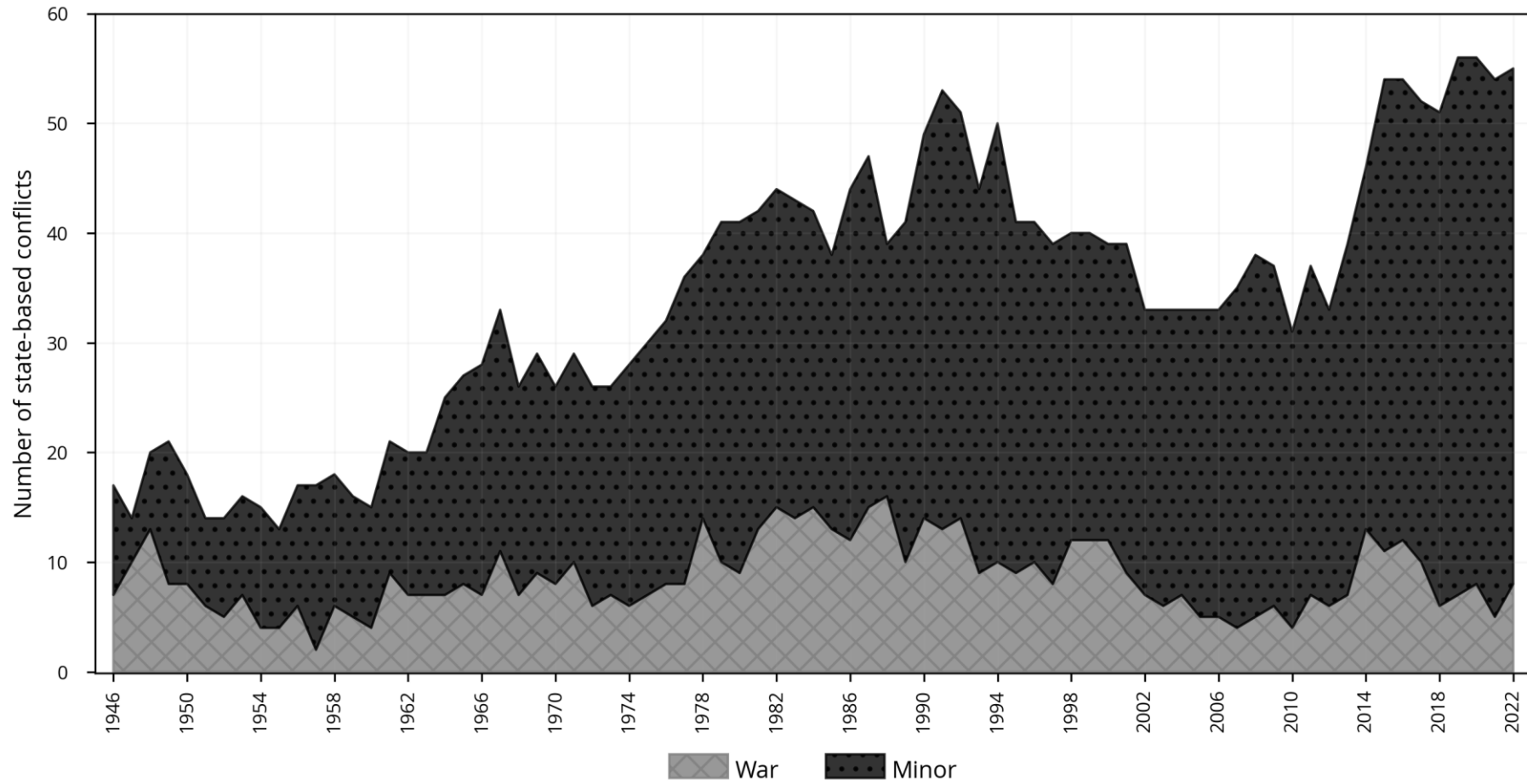
FDI divestments by MNEs in Italy



Challenge 2 – Changing geo-political landscape and conflicts

A world of turbulence: state-based conflicts

State-based conflicts by level of intensity (1946-2022)

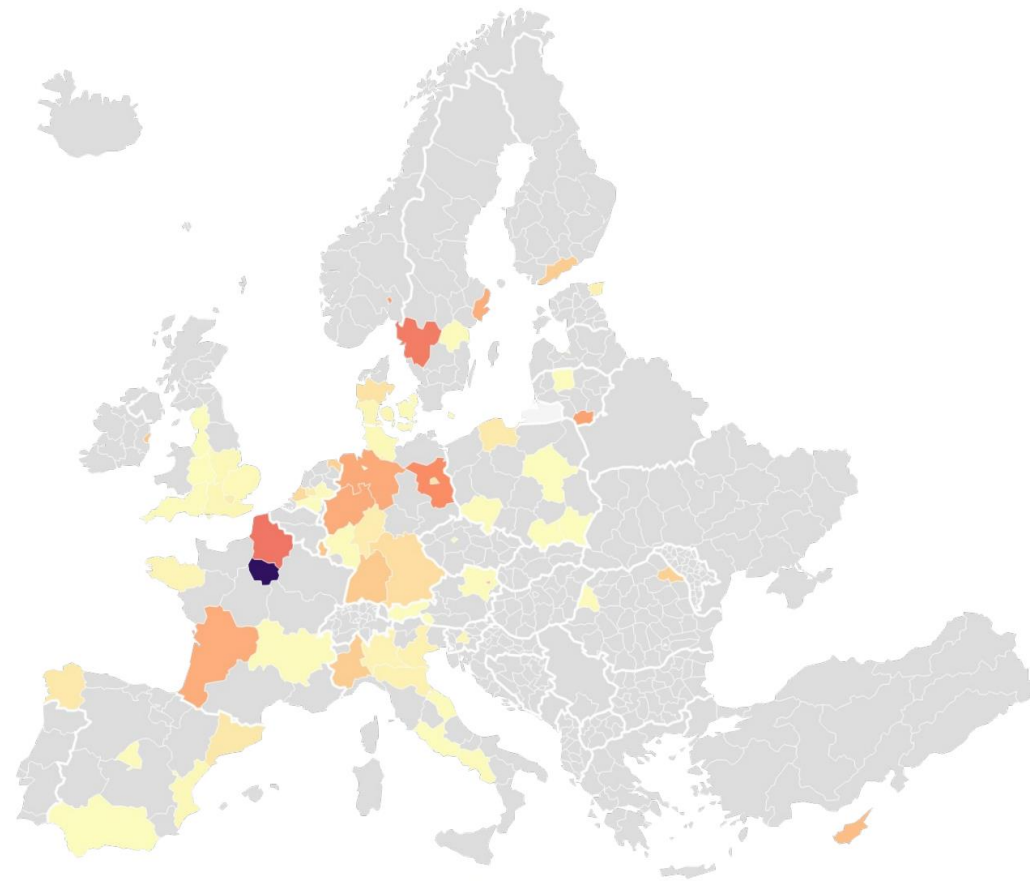


Based on UCDP 23.1 data

The regional consequences of international conflicts

FIGURE 1 FDI FROM REGIONS IN THE EUROPEAN UNION, THE UK AND NORWAY TOWARDS UKRAINE (CUMULATIVE VALUE OF GREENFIELD FDI FLOWS, 2013-2021)

Total USD M (2013 - 2022)



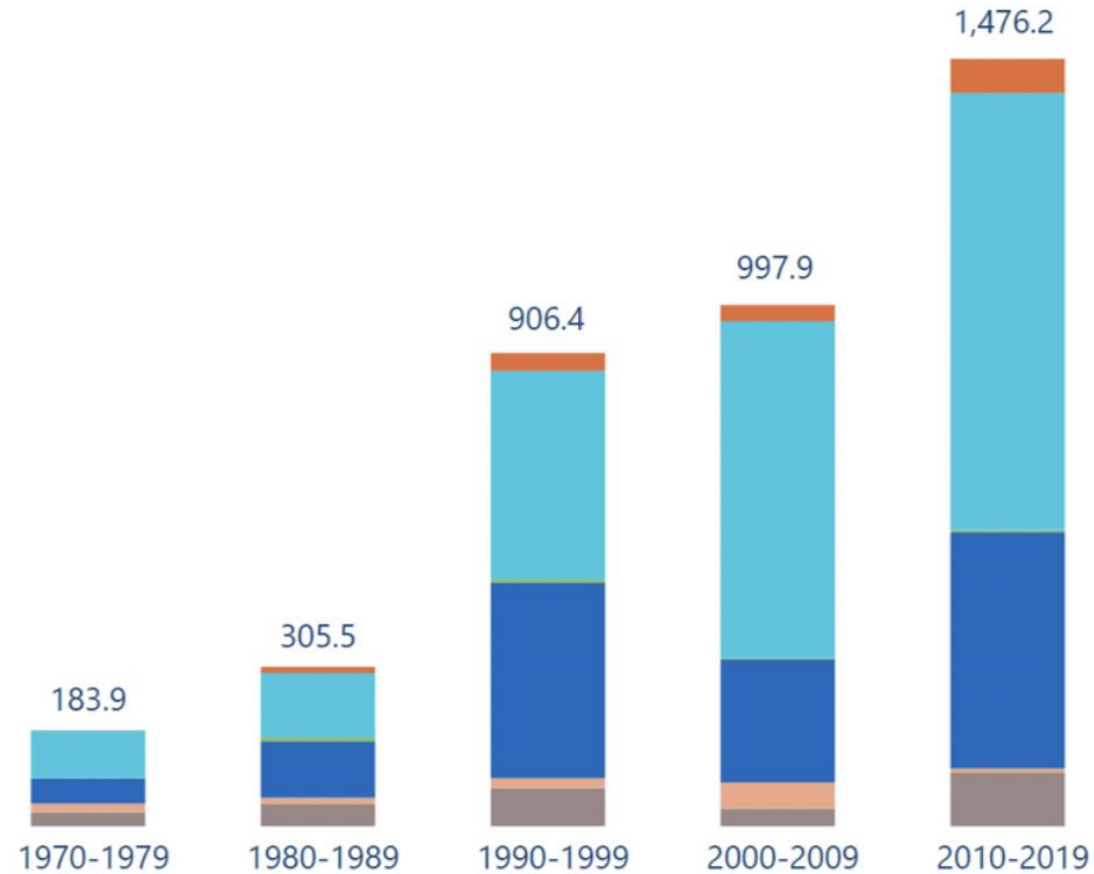
Notes: To align spatial scales, capital expenditure of Limassol, Cyprus (\$11.41 million) added to Nicosia, Cyprus (\$255.9 million) and capital expenditure of Grevenmacher, Luxembourg (\$11.23 million) and Esch-sur-Alzette, Luxembourg (\$1.62 million) added to Luxembourg, Luxembourg (\$220.83 million)

Source: Authors' elaboration on BvD Cross-Border FDI data.

Challenge 3 – Climate change and the green transition

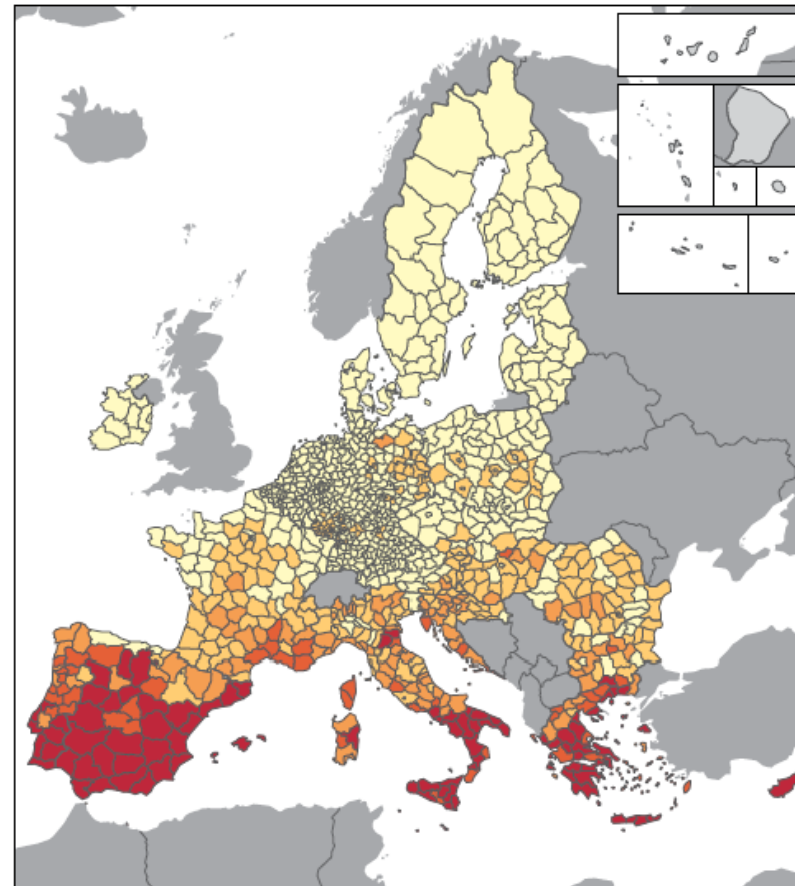
A world of turbulence: Natural disasters over the past 50 years

Reported economic losses by decade (in US\$ billion)



● Drought ● Extreme temperature ● Flood ● Glacial lake outburst ● Landslide ● Storm ● Wildfire

The impact of climate change under a 2°C global warming scenario in NUTS 3 regions, 2050



Human exposure to harmful climate impacts

% of population

≤ 10

10 - 25

25 - 50

50 - 75

> 75

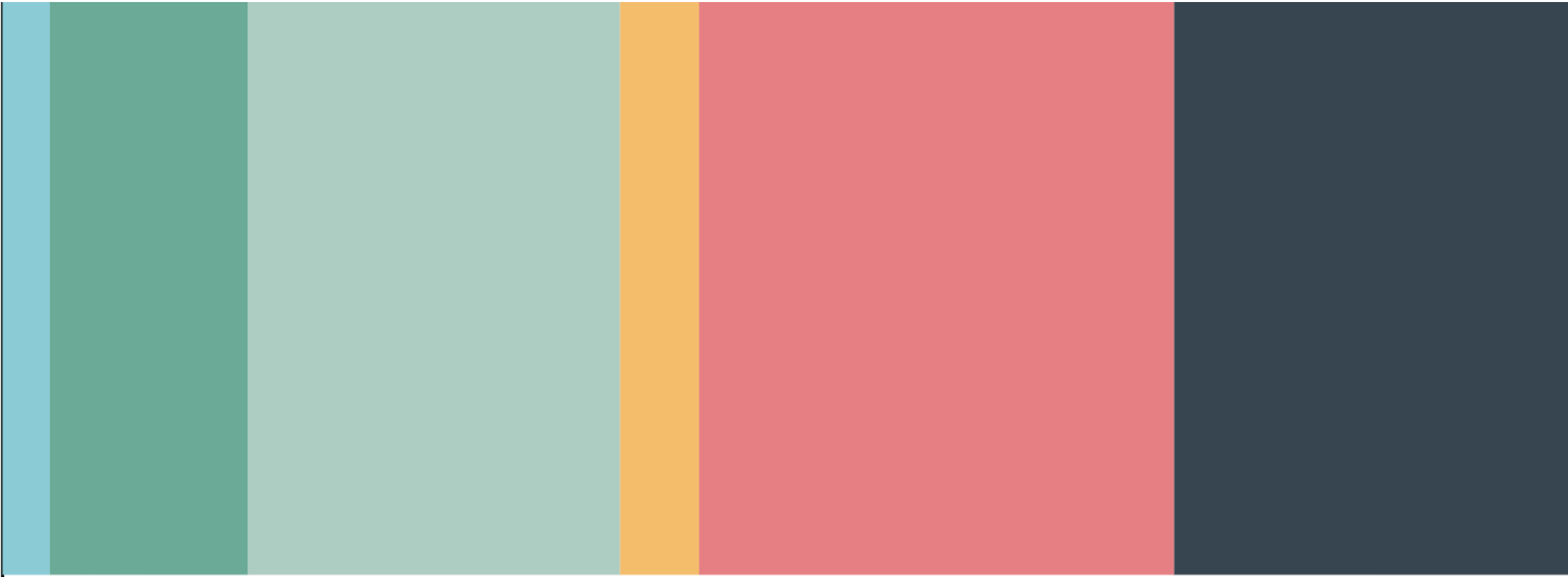
no data

Share of the population exposed to wind storms, coastal flooding, river flooding, water shortage and wildfire danger.

Source: JRC.

Achieving net zero—a (regional) policy gap?

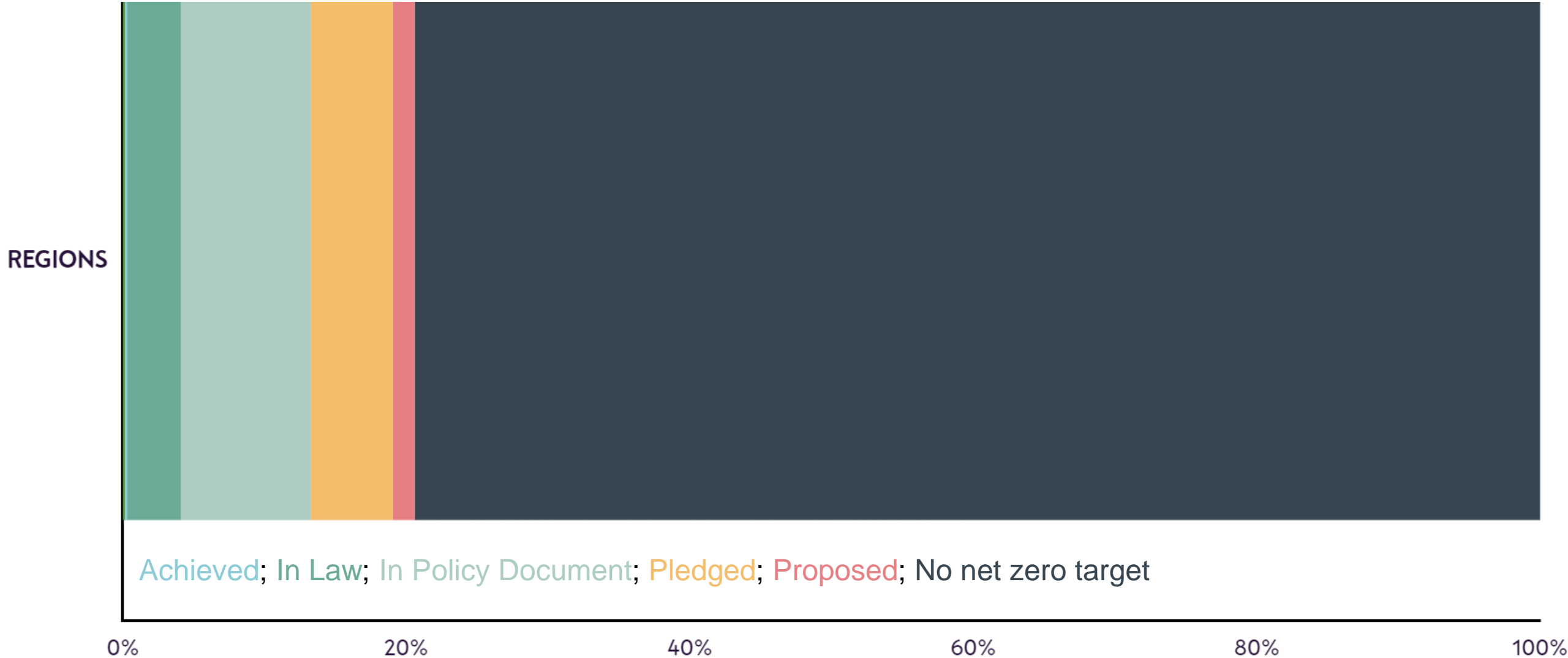
NATIONS



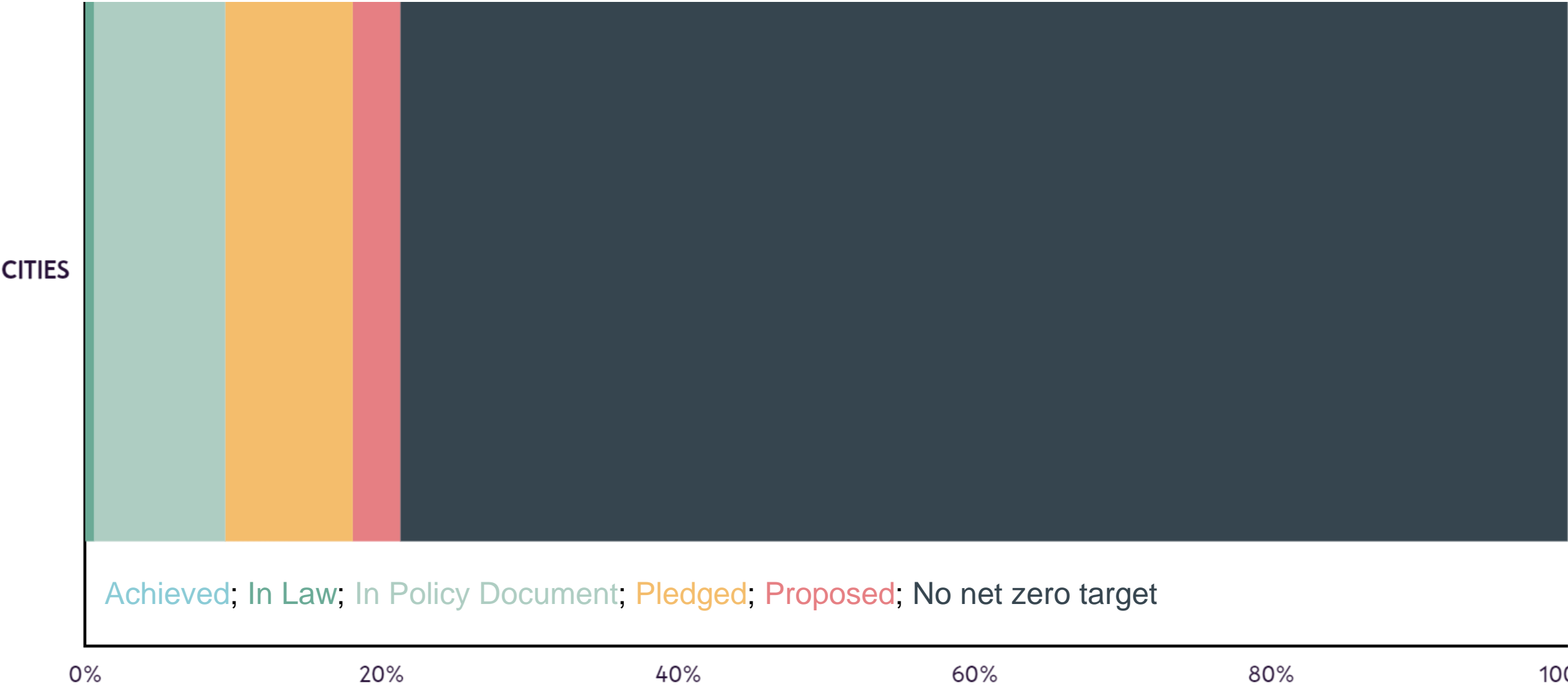
Achieved; In Law; In Policy Document; Pledged; Proposed; No net zero target

0% 20% 40% 60% 80% 100%

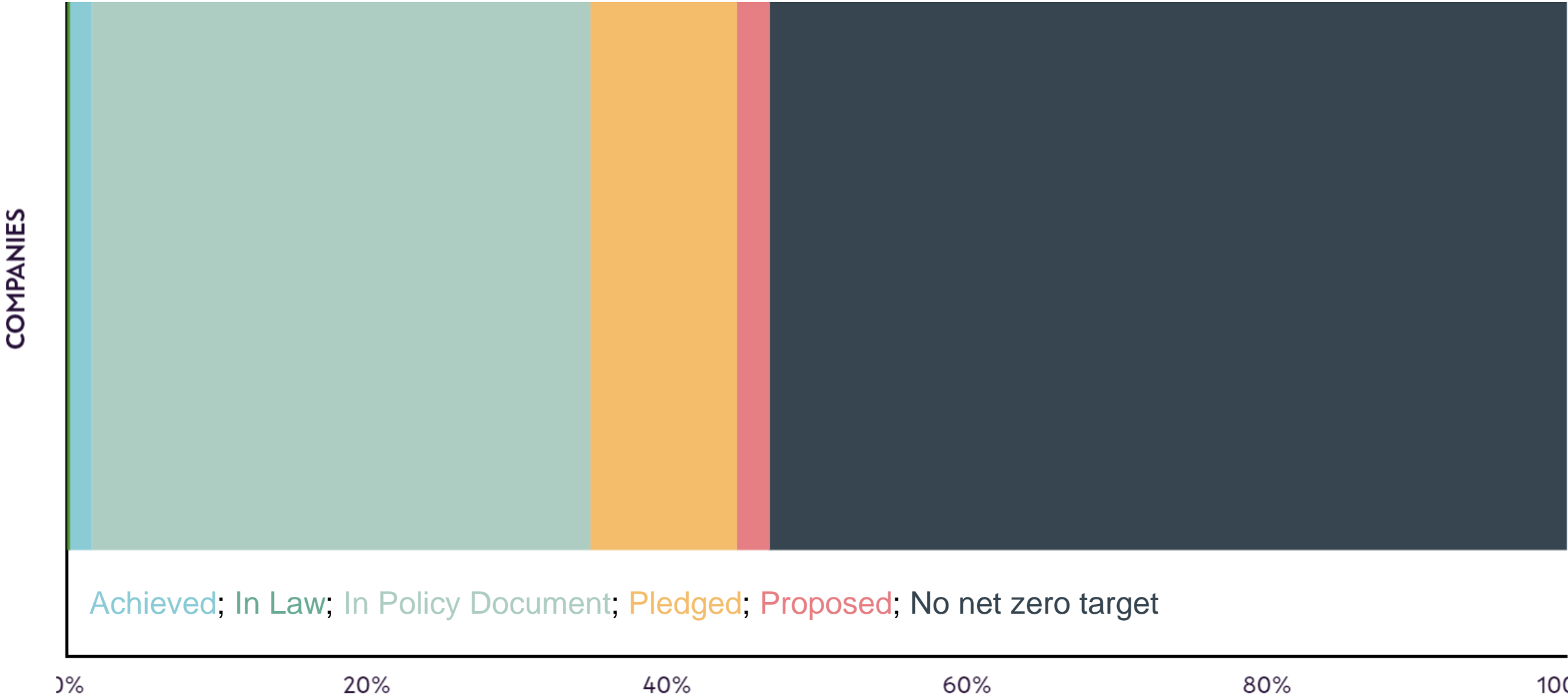
Achieving net zero—a (regional) policy gap?



Achieving net zero—a (regional) policy gap?



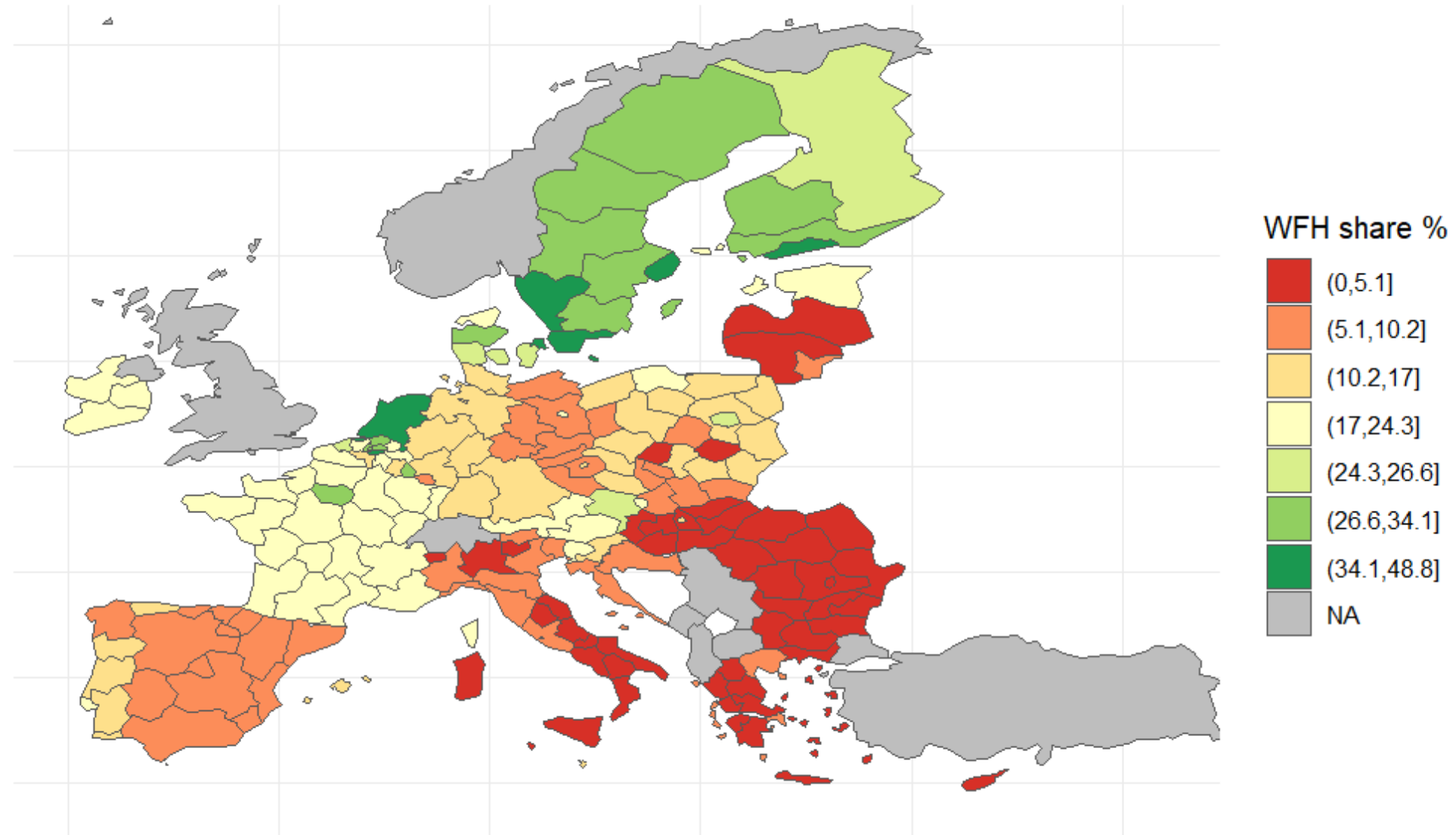
Achieving net zero—a (regional) policy gap?



Challenge 4 – Digital transition

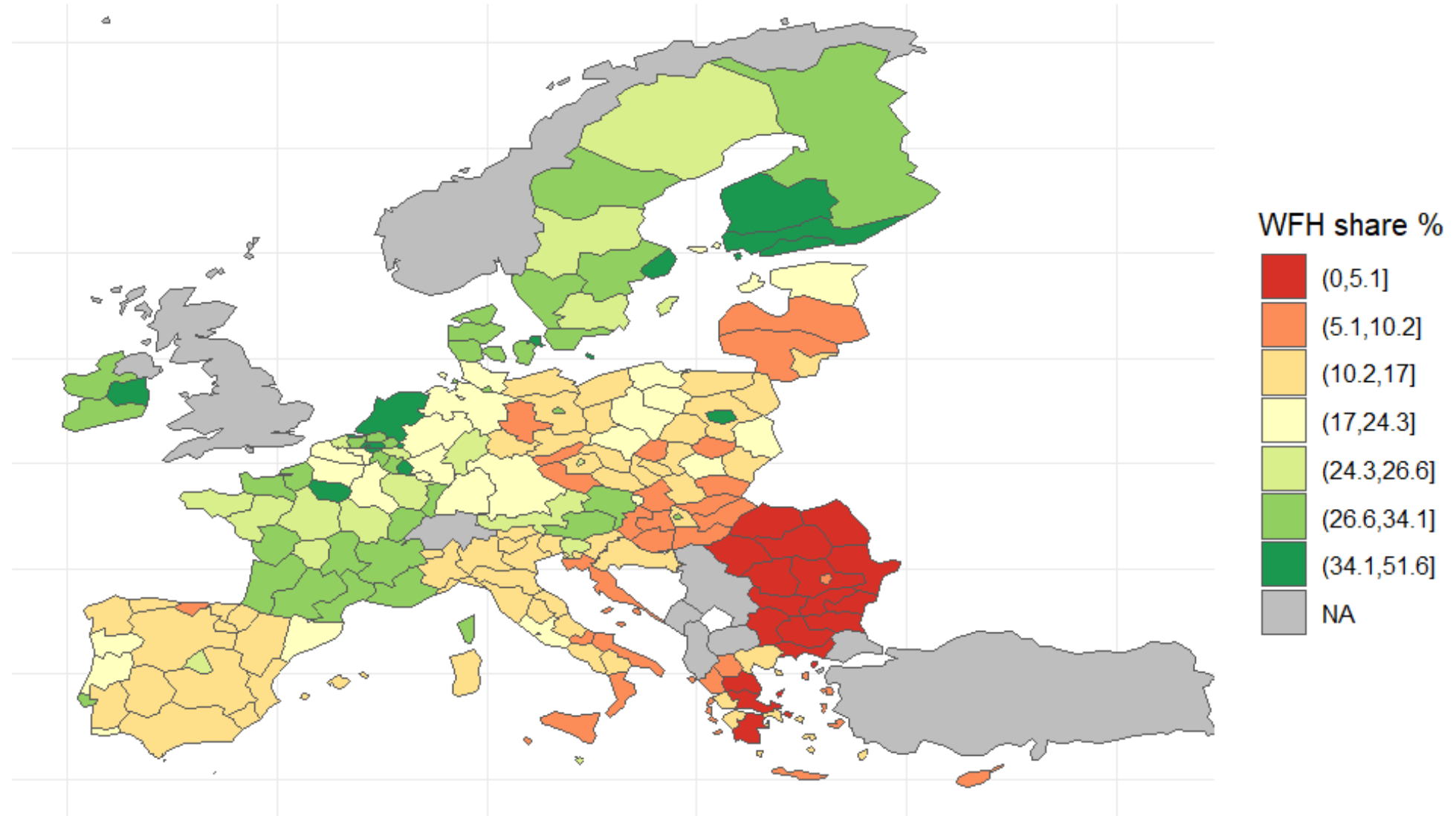
The digital transition: Work-from-home in the EU BEFORE Covid-19

Work from home in 2019



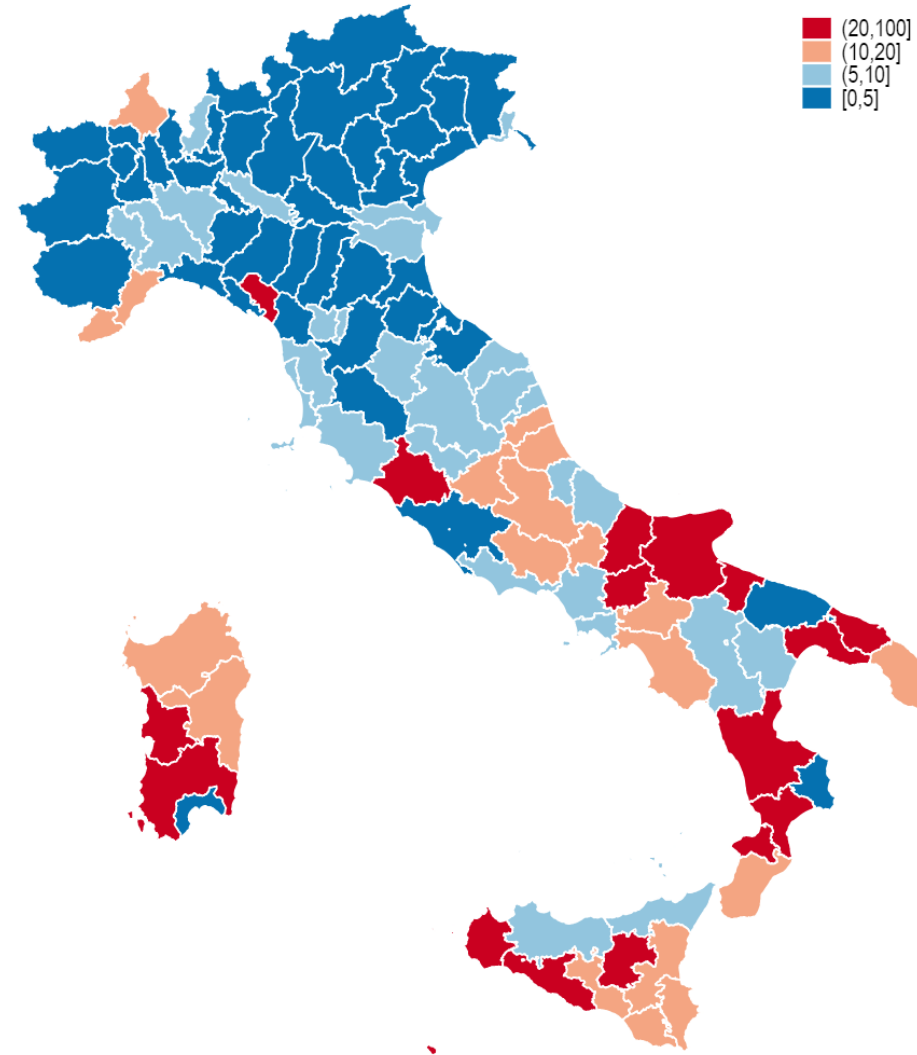
The digital transition: Work-from-home in the EU DURING Covid-19

Work from home in 2020



The digital transition: the digital divide

Technological Potential to Work from Home vs actual WFH shares, 2020



HOW should it work?

Sophisticated **diagnoses** not matched by 'well-tested medications':

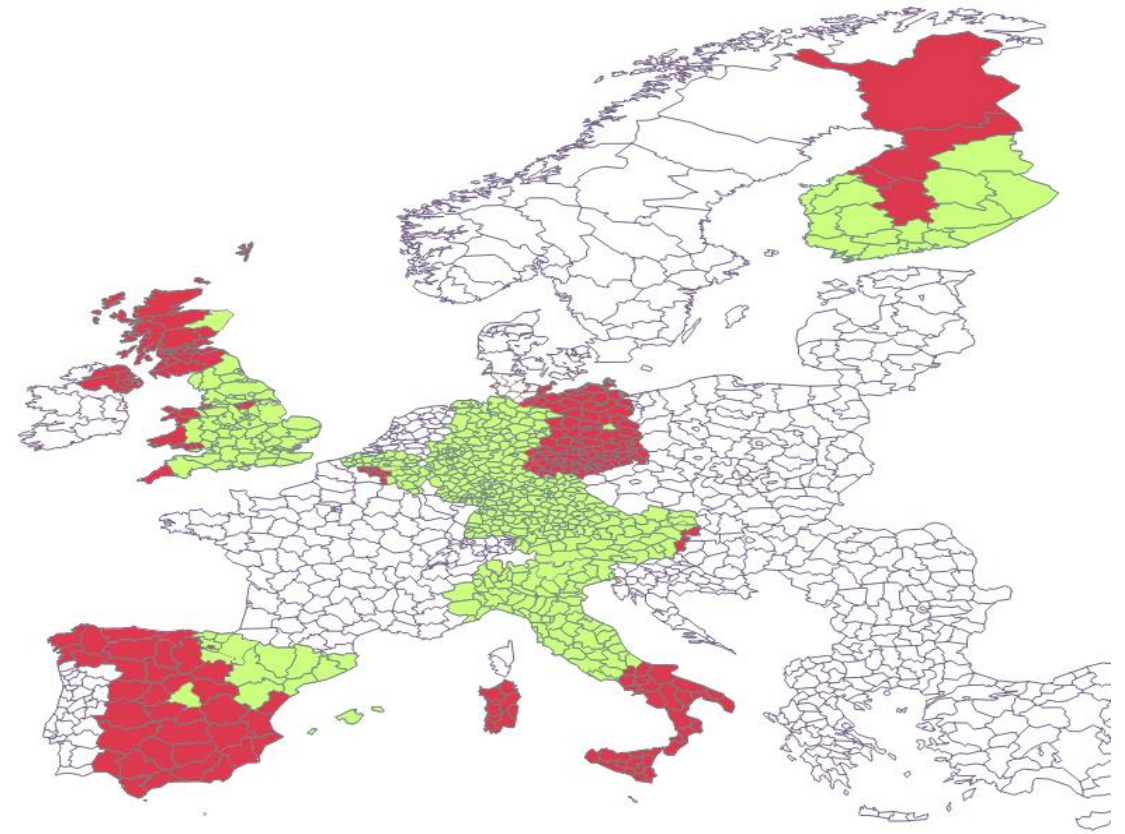
- Regions have been told (and very rightly so) to 'invest more in **innovation**', 'increase and improve **human capital**', 'reinforce **institutions**' etc.
- If all regions were good at this kind of thing, these problems wouldn't exist today!
- Generic recipes are good cover-ups for rent-seeking by local elites
- How to achieve these goals ***in practice*** given local conditions? What works? Where?

How?: Achieve Cohesion by investing in less developed regions

Evidence - Positive EU-wide impact on regional employment that survived the Great Recession and supported less developed regions in the recovery period

Regions in Germany and the UK 'kept' their bonus after the Crisis vs. regions in Italy and Spain that 'lost' their advantage with the Great Recession

Lessons – **Positive impacts overall.** Addressing institutional and governance conditions should be a priority in order to 'build' long-lasting impacts



*Treated NUTS-3 regions (Objective 1 regions in 2000-2006) in red.
Counterfactual NUTS-3 regions in green*



Home News Sport Business Innovation Culture Travel Earth Video Live

of going green sparks backlash Europe's voters

Share

News



The Big Read Renewable energy [+ Add to myFT](#)

The \$9tn question: how to pay for the green transition

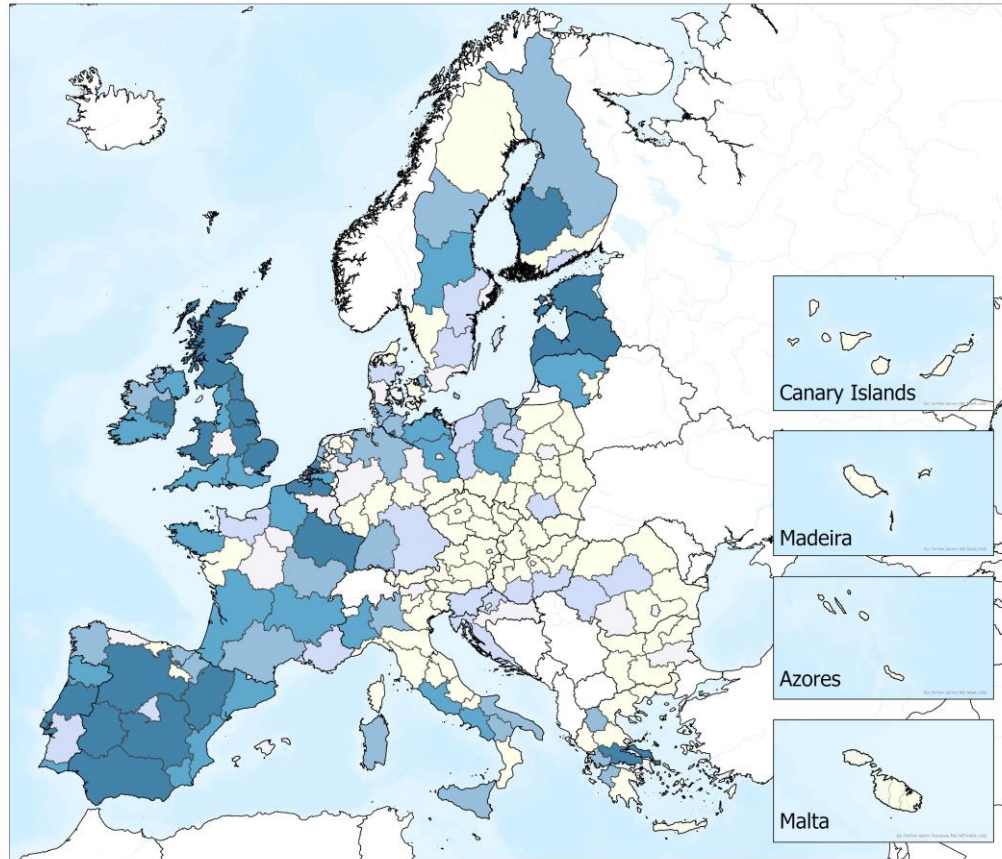
The bill for meeting climate goals will be immense. Governments worldwide are trying to figure out how to foot it

Attracta Mooney in London MAY 6 2024

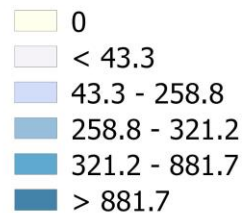
560

Bringing the green to the regions: GREEN Foreign Direct Investment (FDI)

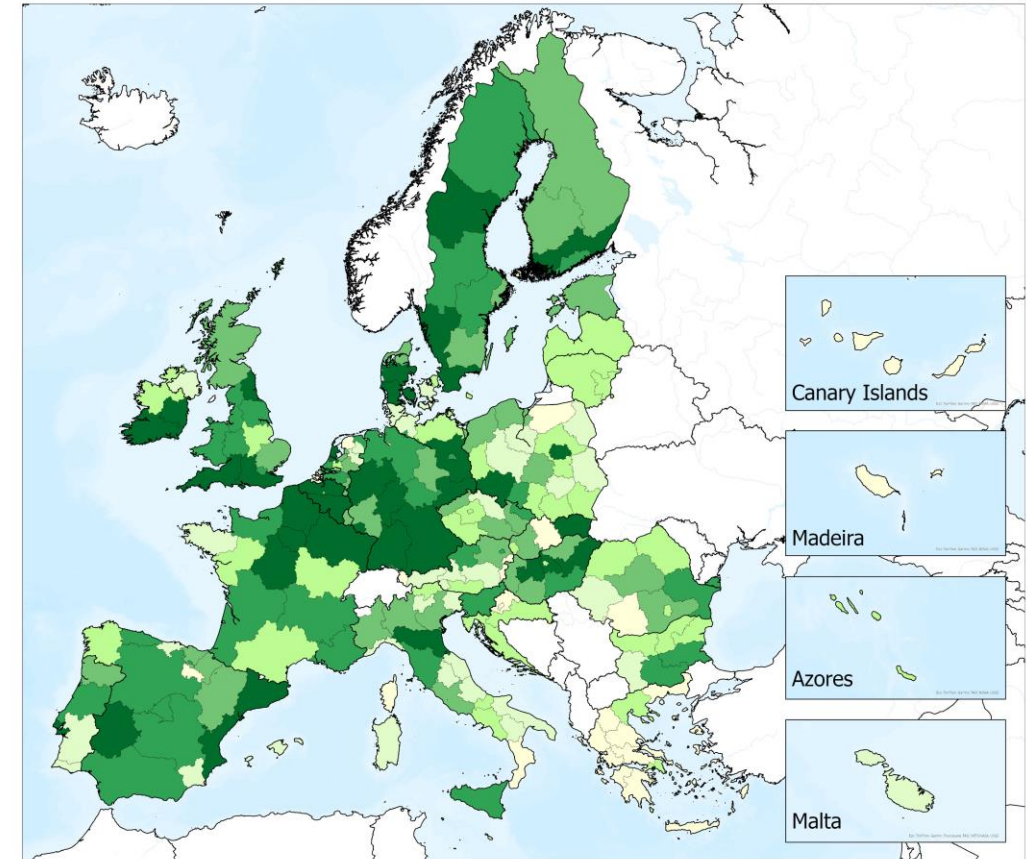
Green FDI: renewable energy/utility sectors



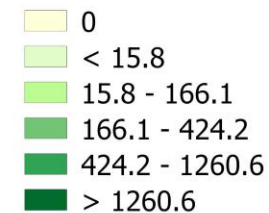
Total inward FDI into renewable energy/utilities (2013-2023), by region
USD M, quintiles



Green FDI: all other sectors

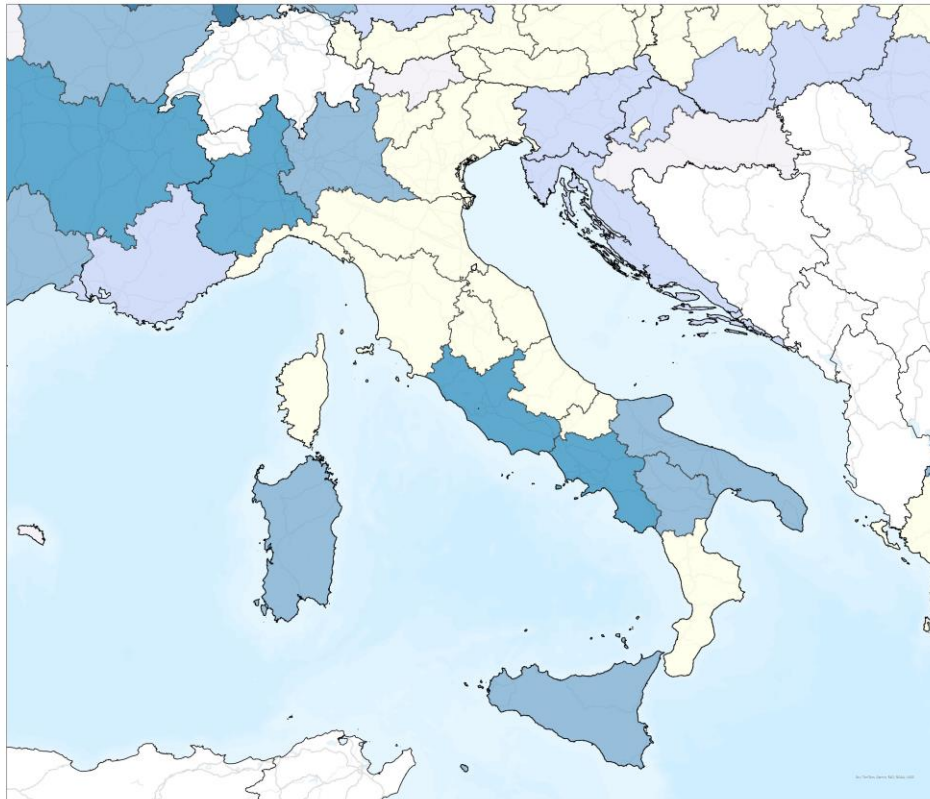


Total inward FDI into non-energy/utility sectors (2013-2023), by region
USD M, quintiles

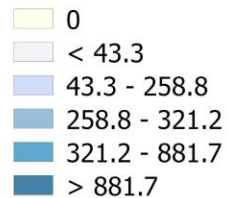


Bringing the green to the regions: GREEN Foreign Direct Investment (FDI)

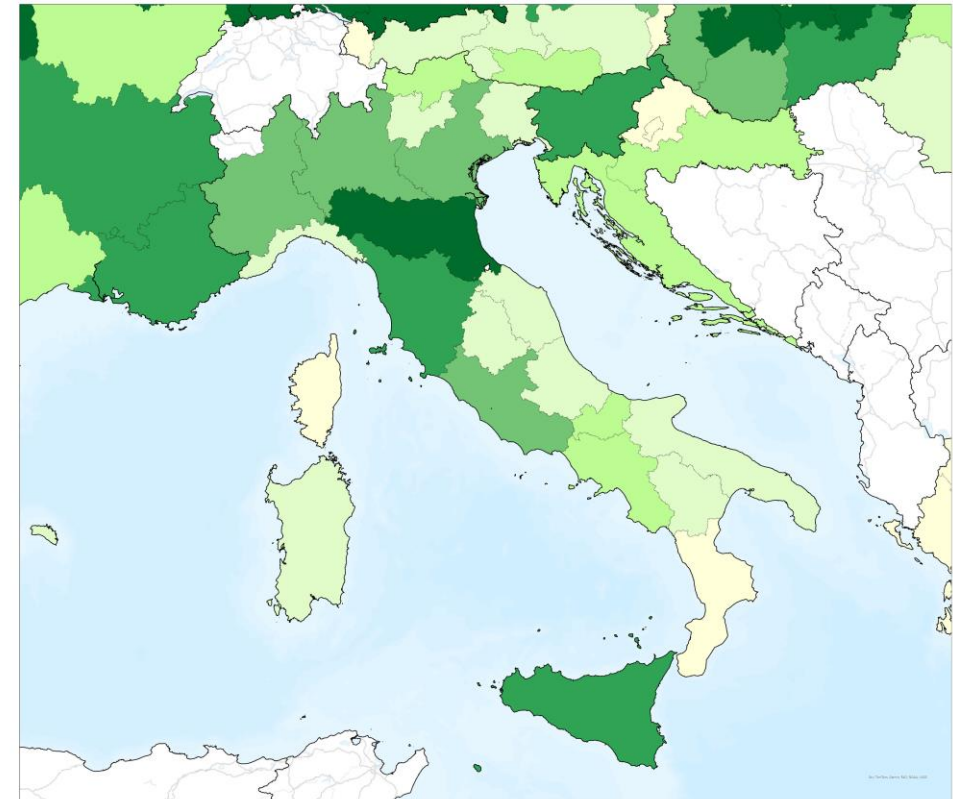
Green FDI: renewable energy/utilities only



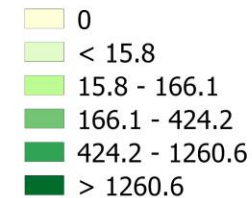
Total inward FDI into renewable energy/utilities (2013-2023), by region
USD M, quintiles



Green FDI: all other sectors



Total inward FDI into non-energy/utility sectors (2013-2023), by region
USD M, quintiles



How? – A new governance with faster and streamlined procedures

| | | 'Traditional' Projects | Digital & Green Projects | Total |
|--------------|---|------------------------|--------------------------|---------|
| On time | # | 249,736 | 9,945 | 259,681 |
| | % | 88.24 | 69.83 | 87.36 |
| Light delay | # | 15,780 | 1,253 | 17,033 |
| | % | 5.58 | 8.80 | 5.73 |
| Severe delay | # | 17,494 | 3,044 | 20,538 |
| | % | 6.18 | 21.37 | 6.91 |
| Total | # | 283,010 | 14,242 | 297,252 |
| | % | 100.00 | 100.00 | 100.00 |

Evidence - Digital and Green projects are inherently more prone to implementation delays in particular in 'weaker' regions

Lessons - The direct involvement of citizens through participatory procedures led by central governments can significantly cut delays.

'Digital and Green' projects by completion status – 2014-2020 Cohesion Policy - Italy

How? – A new governance to work with private investors and citizens

| | | Investments | Value Added | Employment |
|--|--------------|------------------------|------------------------|------------------------|
| Z1: Public research (presence of a University in the project partnership) | Treatment*Z1 | -1.1480 (0.8926) | 0.4142 (0.7503) | 1.0767* (0.4205) |
| Z2: Collaboration (project partnership involving large number of firms) | Treatment*Z2 | -0.5514 (0.5438) | -1.9874*** (0.5263) | -1.9942*** (0.4992) |
| Z3: Advanced Activities (activity of the project classified as advanced) | Treatment*Z3 | -0.4083 (0.4439) | -0.2672 (0.4907) | -1.4622* (0.5910) |
| Z4: Low tech (firms operating in low tech sectors) | Treatment*Z4 | 1.2951** (0.4333) | 0.1203 (0.4162) | 1.3514** (0.4749) |
| Z5: Patenting (firms with a high capacity of patenting) | Treatment*Z5 | -0.1697*** (0.0477) | 0.2223*** (0.0596) | 0.1248 (0.0876) |
| Z6: Internationalisation (multinational corporations) | Treatment*Z6 | -0.7148 (0.6535) | -0.9529* (0.3698) | -1.7699* (0.7928) |

Evidence – The analysis of the Italian Collaborative Industrial Research Programme (2007-2013) shows that: #

- Z1- **Collaboration** with public research centres or Universities does not increase impact
- Z2 - **Large partnerships** have a negative impact on value added and employment
- Z5 - Firms with more **consolidated innovative capabilities** reduce investments (crowding-out) and focus on value added
- Z6 - No benefit for large **internationalised firms**

How? – A simplified performance-based policy

- A policy that becomes **even more performance-based**, blending this approach with its territorial dimension
- A performance-based model, **complementing investments with reforms** to achieve development goals without diverting from its foundational objectives of promoting social and economic convergence
- A policy that **streamlines its administrative procedures**, reducing paperwork, and adopts more efficient approaches to simplify processes and make them more user-friendly
- A policy that remains fundamentally concerned with its original mission of driving sustainable development and boosting competitiveness in less developed regions, while **maintaining flexibility to address urgent challenges**

How? – An evidence-based policy

Gradual transparent **evidence-based policy learning** based on:

- Ex-ante, *in-itinere* and ex-post evaluation of policies, programmes and projects beyond formal requirements
- (Open) Data availability at the firm/individual beneficiary level in ALL Member States
- Combination of qualitative, quantitative and mixed methods (including Machine Learning)
- Stringent requirements in terms of valid methods, external validity and transferability of results
- Eclectic evidence-based selection of policy tools based on diagnosis of local developmental bottlenecks
- Small-scale experimentation with continuous feedback mechanisms.

Essential for EU integration that expenditure is translated into impactful policy actions:

- evaluation needs to be linked with citizens' engagement in order to trigger a virtuous demand circle
- Demand for evaluation generates support for evidence-based policies

WITH WHOM should it work?

With whom? – A policy that builds synergies

- A policy that builds **synergies with other EU and national initiatives** to ensure that all policies deliver on their goals
- Cohesion is far too important to be left to Cohesion Policy alone.
- There is **no cohesion if the benefits of other EU and national policies concentrate in a few spaces**
- Cohesion Policy and other EU initiatives, as well as national policies, are mutually dependent and **need to work in concert to achieve their collective goals**
- A policy **with a strategic framework uniting competitiveness and cohesion and other relevant policies as part of the European Semester process**

Conclusion

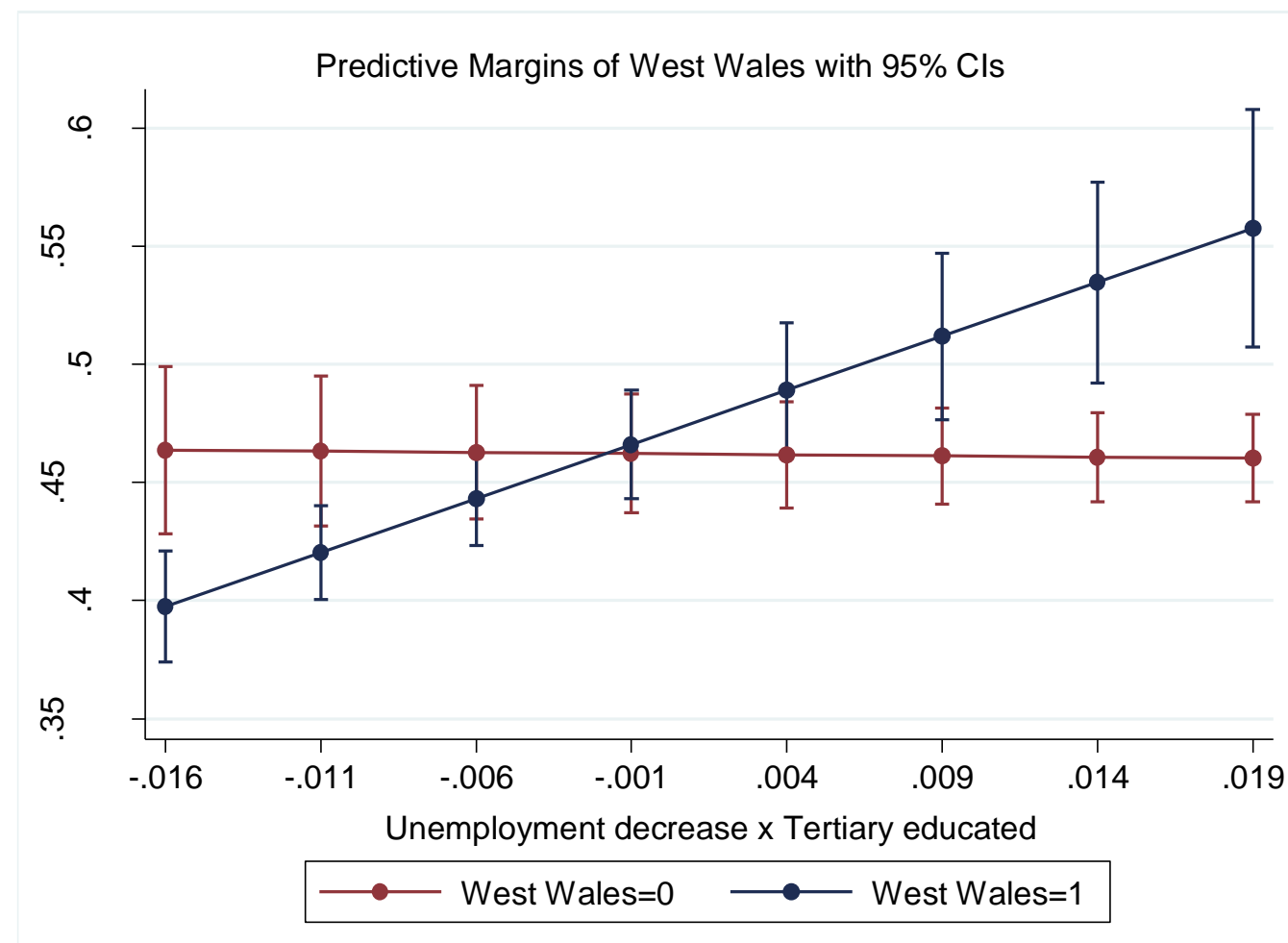
Conclusions – IMPACT matters for the future of Europe

Brexit votes suggest that EU development money mattered only where it generated local impacts

Red: control wards

Blue: treatment wards

Areas in **West Wales** where:
unemployment decreased more +
human capital is higher
voted **Remain** more
(than control wards)



50km from border, order 3 polynomials, excluding Cardiff

- **‘What’**: Deal with ‘new’ and ‘old’ EU challenges from a territorial standpoint
- **‘How’**:
 - Cohesion: Keep the focus on less developed regions
 - Competitiveness: Address the challenges by mobilising private capital (investment policy)
 - New governance: simplified and streamlined procedures, performance-oriented and evidence-based policy-learning
- **‘With whom’**
 - Work in tandem with other national and EU policies
- Ultimately it is impact that matters!



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Thanks for your attention

r.crescenzi@lse.ac.uk

[@crescenzi_r](#)

Reflections on the Future of Cohesion Policy