



EU COHESION POLICY POST-2027

**AN IMPACTFUL
POLICY FOR
REGIONAL
COMPETITIVENESS**

KEY MESSAGES

Cohesion policy is a core policy of the European Union (EU). Around one third of the EU budget is channelled through this policy, which accounts for €392 billion out of €1,2 trillion for the 2021-2027 period. The primary objective of cohesion policy, as enshrined in the Treaties, is to reduce regional disparities and ensure that all regions can benefit from the single market. Over the years, this policy has become the main EU investment instrument for the long-term structural transformation of regions, and it has brought about a deep transformational impact in many EU territories.

Nevertheless, important challenges remain. **The functioning of cohesion policy is overshadowed by administrative complexity**, an important problem which affects its efficiency. Moreover, the policy's outcome is difficult to evaluate with many regions continuing to face economic stagnation or development traps despite having benefited from cohesion support for decades. It is however complex to establish a direct link – positive or negative – when so many factors can impact results, including macro-level conditions. As mentioned in the Letta report, “there are many factors explaining the lack of growth and dynamism in certain EU territories and not all of them are under the control of regional and local authorities”. Therefore, there is a clear need to re-assess cohesion policy so it can deliver more tangible benefits for regions and citizens.

From a European business perspective, cohesion policy remains a cornerstone of the EU's mission, balancing the needs for convergence with competitiveness, as clearly stated in President Ursula Von der Leyen Guidelines and Mission Letters. **European companies, large and small, stand to benefit from a well-functioning cohesion policy that delivers long-term stability and innovation-friendly environments in all EU regions. To effectively contribute to EU strategic objectives and regional competitiveness, cohesion policy under the next MFF requires not only adequate funding but must also undergo a serious exercise of modernization, including simplification, stronger private sector and regional involvement, and ensuring funds are invested in quality projects.** This reflexion should also take into account future enlargements.

WHAT DOES BUSINESSEUROPE PROPOSE?

From a business perspective, there are three clear priorities:

- Implement a major simplification overhaul;
- Strengthen private sector involvement;
- Ensure funds are invested in quality projects.

This BusinessEurope position paper includes reflections and recommendations from the European business community, ahead of the upcoming proposal on the cohesion policy post-2027, within the broader framework of discussions concerning the next MFF, to support EU policy makers in their deliberations and contribute to an efficient design of the new policy.

PART I: REACTIONS TO THE MID-TERM REVIEW OF COHESION POLICY

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BusinessEurope welcomes the European Commission's mid-term review of cohesion policy. Overall, proposals represent a **valuable step forward in aligning cohesion policy more closely with Europe's evolving strategic challenges**, particularly regarding competitiveness and innovation.

It is of great importance the Commission's explicit acknowledgement of competitiveness as a core objective of cohesion policy. Rebalancing convergence with competitiveness is critical to enhance the EU's economic resilience and to unlock the potential of all regions. The emphasis on better support for innovation, industrial transformation and research performance reflects longstanding business priorities.

Importantly, **we commend the Commission's efforts to streamline implementation, reduce complexity, and provide more time for fund execution**. The move to offer increased flexibility in programming and reprogramming – particularly in view of unforeseen challenges and crises – is essential to ensuring that cohesion policy remains relevant and responsive. It is also of maximum importance to take a pragmatic approach and ensure funds reach companies with speed and efficiency.

Likewise, **the recognition of the important role of large enterprises, when justified by the economic impact and investment quality, is a welcome development**. In the past, cohesion policy has been limiting support to large companies, whereas regional development hinges on the integration of entire value chains, in which large companies play a vital anchor role.

The role of the InvestEU programme in mobilising private investment and enhancing access to finance in strategic sectors is very important. From this perspective, **the possibility of transferring resources from the European Regional Development Fund (ERDF) to InvestEU may bring an efficient and speedier reallocation of funds**, provided it is done in a balanced and transparent manner, aligned with the specific development needs of EU regions. But the ERDF remains a vital tool to address structural disparities and support the economic transformation of less developed regions. Not all regions or SMEs are equally positioned to access financial instruments under InvestEU. Therefore, any reallocation of resources should ensure that traditional cohesion objectives are not weakened, and that sufficient grant-based support remains available for projects and beneficiaries that cannot yet rely on market-based solutions, including allowing ERDF to support large companies in regional development projects.

The business community sees in the Commission's review a serious and mostly well-calibrated attempt to modernise EU cohesion policy. This is an opportunity to refine implementation while keeping a clear focus on competitiveness, territorial cohesion, and investment effectiveness. We look forward to further engaging with EU institutions and national authorities to ensure that these proposals are translated into a policy framework that works — for all regions, for all companies, and for Europe's long-term prosperity.

KEY ISSUES TO WATCH¹

Despite the generally positive direction, certain elements of the proposal raise questions that require further dialogue and attention.

Firstly, while the increased focus on European strategic priorities such as defence and dual-use technologies is understandable in the current geopolitical context, the importance of traditional and

¹ Business Europe Position Paper on the next MFF, entitled "Squaring the (budgetary) circle – Proposals on the 7th MFF (2028-2034)", also includes a section on Cohesion policy within the broader MFF framework. It can be downloaded [here](#).



technology intensive sectors should not be minimized. Some caution is needed to ensure that such priorities are meaningfully tailored to the specific needs and capabilities of each region. The territorial dimension of cohesion policy must not be diluted. **Not all regions will have the industrial base or workforce to host projects in these “new” priorities, and efforts to artificially fit such investments across the board risk undermining both the efficiency and the legitimacy of the policy.**

Secondly, although incentives for programme reprogramming can play an important role in aligning investments with emergent needs, these must be applied prudently. **There is a risk that overly generous incentives could lead to unnecessary or politically driven reprogramming**, at times at the costs of other foreseen investments tailored to the specific needs of a region. It is essential that any such changes be grounded in clear evidence and real needs at the regional level.

Moreover, **concerns remain regarding the application of the partnership principle**. The speed of the reprogramming must not come at the expense of genuine consultation with regional authorities, business representatives, and social partners. As the experience with the Recovery and Resilience Facility (RRF) has shown, insufficient stakeholder involvement can lead to suboptimal policy outcomes. For the proposed measures to deliver their full potential, social partners and private actors must be engaged early and meaningfully in both the programming and the reprogramming phases.

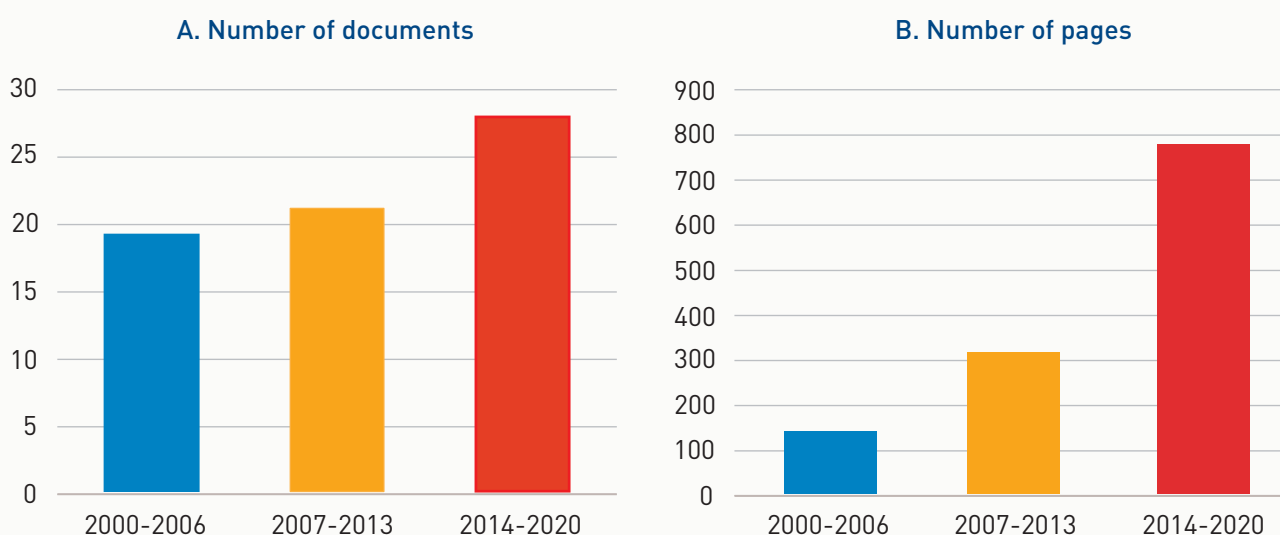
We also **support the Commission’s intention to learn from the implementation of the RRF and bring greater performance orientation to cohesion policy**, while paying attention to the identified caveats identified in part I of this position paper.

Finally, **the proposed possibility to apply Union financing of up to 100% for the reprogrammed priorities should be applied carefully**. Full EU co-financing is highly exceptional under cohesion policy and should remain so. The principle of shared responsibility between the EU and Member States, which is essential for ensuring sound project selection, national ownership, and long-term impact must be upheld. This measure should be limited to exceptional and well-defined situations.

1. MAJOR SIMPLIFICATION OVERHAUL

Simplification measures have been a key concern at each policy revision and new policy cycle design. Unfortunately, from a business perspective, these efforts have failed to deliver any tangible results, and have added complexity, requirements and conditionalities which are incompatible with the reality of businesses. This argument seems to be confirmed by an OECD Working Paper, which demonstrates that cohesion policy has become more complex over time and shows that the number of documents and number of pages have increased substantially over time (figure 1).

FIGURE 1: DOCUMENTS CONCERNING EU REGULATIONS AND COMMISSION'S DECISIONS CONCERNING COHESION



Source: OECD Economics Department working papers No.1696

Simplification measures must therefore be at the core of the design of EU cohesion policy post-2027.

The debate has been centred around the lessons that should be taken from the RRF funding model. In fact, the RRF brings the novelty of having an EU financial support that is not linked to actual costs but, instead, disbursed upon satisfactory fulfilment of milestones and targets for investments and reforms. On the other hand, until today, cohesion policy, has focused on incurred expenditure, and has not taken performance information into consideration.

We are positive about the idea of introducing an RRF style conditionality to the budget for indirect funding schemes (e.g., Structural Funds) as outlined in the European Commission's Communication 'The road to the next multiannual financial framework'. In fact, while admitting flaws and risks in its implementation, the evidence available to date on the approach adopted with the RRF appears to be generally positive according to both the mid-term review of the RRF carried out in February 2024 and the third annual report published in October 2024 which concluded that the RRF is supporting EU companies leverage the opportunities of the twin green and digital transition, while also enhancing economic, social and institutional resilience. In this sense, designing a new RRF-like scheme would require a better strategic programming.

This conditionality is naturally not applied to specific projects as results for most projects that are financed by cohesion policy instruments can only be evaluated in the medium and long term. Moreover, performance may be influenced by factors that are exogenous to cohesion policy and cannot be controlled either by project promoters or public authorities.

The following points should be taken into consideration when designing the functioning of the policy for the upcoming cycle:

- Simplification does not mean placing existing rules under one single document, as it was the case during the 2020-27 framework period. It entails a simplification of guidelines, control systems, and burdens on beneficiaries – a completely new mentality must be put in place.
- Ensure efficient processes for fund application, reporting, and compliance which reduce barriers to access. This will benefit businesses of all sizes, especially Small and Medium Enterprises (SMEs) and regions with limited administrative capacity. It is fundamental to align the provision of incentives with the business investment logic.
- Ensure expeditious rules for eligible expenditure: introduce digital solutions that allow expenditure to be validated by simply processing of digital invoices while ensuring a stronger focus on the implementation of projects.
- Expand the use of simplified costs option such as unit costs, lump sums or flat-rate expenditure schemes for certain types of expenditures and make them compulsory for a larger range of small projects. These have been identified by the European Court of Auditors as important ways to reduce bureaucracy and even alleviate problems of fraud and corruption.
- Aim at a faster disbursement of funds, with more detailed verification at later stages, while also imposing heavier consequences for misuse of funds. Administrative burden reduction must not compromise financial oversight. Beneficiaries must sign a commitment of responsibility and good honour and heavier consequences for misuse of funds should therefore be foreseen as a complement for a serious simplification exercise.
- Enhanced transparency and accountability should be an integral part of simplification efforts. This can be effectively achieved by implementing mechanisms such as independent periodic audits, publicly accessible evaluation reports and user-friendly online monitoring platforms. Such tools will provide greater oversight, reduce risks of mismanagement or corruption and build stronger public trust in the cohesion policy implementation process.
- A serious simplification exercise is needed also at national level. This is because, in addition to an already complex framework at EU level, beneficiaries face additional burdens and complexities at the national level in many member states. Institutional quality has been increasingly acknowledged as a potent determinant of the effectiveness of cohesion policy² - a greater effort of capacity building must be made and the change of mentality, previously mentioned, must be extended to the national authorities.

² OECD Working paper, Enhancing regional convergence in the European Union, 17 December 2021.

- It would be important to streamline, at the Member States level where still necessary, the process of interacting with and supporting beneficiaries, for example by creating a single point of contact for beneficiaries throughout the project delivery cycle.
- Take forward a simplification exercise of the State aid rules linked to cohesion policy (e.g., the GBER - General Block Exemption Regulation).
- Increase cooperation amongst managing authorities in Member States as well as between managing authorities and intermediate bodies of the direct management programmes.
- Introduce simplification in the application of certain principles when they represent a significant burden for companies, in particular small and medium companies, such as the “Do No Significant Harm” principle.

2. STRENGTHEN FOCUS ON LEVERAGING PRIVATE INVESTMENT

There is clear lack of analysis regarding the private sector involvement in the implementation of EU cohesion policy, both in terms of the share of funds that are directed to the private sector, as well as in terms of the impact of the projects carried out by companies in the framework of the EU structural and investment funds (ESIF).

A study from Bruegel concludes that “regions with a higher proportion of projects whose primary beneficiary is a private company (also) perform better”. However, the public sector tends to be a main beneficiary of these funds, and often the private sector is not properly consulted nor involved in the design of operational programmes – a problem that was also clearly identified in the RRFs.

To improve the efficiency and impact of this policy, it is increasingly important to have business as partners in the design and implementation of this policy. Leaving them out of the design processes increases the chances for mismatches with regards to the needs as potential applicants.

To ensure effective engagement of SMEs and start-ups in cohesion policy implementation, specific support mechanisms such as microfinance schemes, simplified lending procedures and targeted incentives and guarantees for startups should be explicitly promoted. These measures would significantly reduce administrative burdens, facilitate easier access to financing and encourage greater participation of smaller enterprises and innovative startups, ultimately enhancing regional competitiveness and economic dynamism.

As mentioned, strengthening national and regional administrative capacities and improving governance are equally vital to managing funds efficiently, implementing reforms and achieving tangible outcomes. Stronger involvement of social partners should prevail, learning from the limits of the RRF experience, in order to better articulate private sector priorities and needs.

If cohesion policy architecture and functioning remain unchanged, companies will be less willing to participate in projects co-funded by ESIF, given the extreme complexity and burdensome requirements often unaligned with business realities. Moreover, companies need clarity on what cohesion funds want to achieve – currently this policy has too many objectives, and often of contradictory nature – and on what the application process is. Finally, cohesion policy support to private companies, or the

attractiveness of its schemes for business is diluted by the limited state-aid intensities as well as conditionalities on what part of a capital expenditure can be covered³.

From the business perspective, there is also room to improve the use of financial instruments within cohesion policy, where the involvement of the European Investment Bank Group would be fundamental. Grants must remain available in several areas, particularly for very innovative projects, risky projects, in cutting edge technology, early stage of applied research or important infrastructure projects. But it is fundamental to reduce grant dependency in areas where these are not justified, to ensure an efficient use of resources, in particularly in the current context where so many new priorities arise at European level. The capacity to use financial instruments at regional and local level must be stepped-up.

3. ENSURE FUNDS ARE CHANNELLED INTO QUALITY PROJECTS

Against the backdrop of a loss of competitiveness and huge financing needs⁴ in the EU, we must ensure that investments under cohesion policy are targeted into projects with a high added value, with the capacity of boosting regional competitiveness and attractiveness of all regions, at the same time reducing disparities.

- **Streamline objectives:** The policy objectives of cohesion are multiple, sometimes incompatible and unrealistic – this needs to change. Too many objectives dilute the effectiveness of pursuing individual goals and create a perception of limited overall progress⁵.

Cohesion policy needs to be more supportive of the objectives of EU industrial policy and promote the integration of all EU regions into EU industrial value chains. Entrepreneurial innovation and value creation are also key success factors for strengthening the economic power, competitiveness and resilience of regions. Research performance must be boosted across all regions.

- **Access to companies of all sizes:** Regions must be able to leverage structural funds strategically to attract investment and stimulate job creation by companies of all sizes and in relevant sectors. Access to structural funds should be granted on the quality of the investment and the investment's expected economic impact, not the enterprise's size. Mid-caps and large enterprises play a crucial 'anchor' role in local and regional economic development as well as for SME growth. Often, SMEs are an integral part of larger enterprises' value chains. Moreover, large companies face the same cost pressures as small companies in making their location choices. In this vein, direct financial support instruments continue to be an important tool used by regions in order to attract large globally mobile investments. Existing measures such as the application of regressive

³ By way of example, the General Block Exemption Regulation (GBER), Article 38.3, which concerns state aid to support energy efficiency measures, eligible costs only capture the difference in price between an energy efficient solution and a non-efficient solution rather than the full investment. This makes it less attractive for businesses take-up. This marks a difference from a similar limitation under Art. 39 concerning energy efficiency in buildings, which was addressed in the last GBER revision in 2023, while Article 38 was for some reason maintained the same. [38.3 (energy efficiency measures): The eligible costs shall be the extra investment costs necessary to achieve the higher level of energy efficiency; 39.3 (energy efficiency projects in buildings): the eligible costs shall be the overall costs of the energy efficiency project.] This is also the case of the STEP Regulation (2024/795), which provides for a strict compliance with State Aid rules, creating obstacles for an effective implementation in certain EU regions.

⁴ The "Draghi report" estimates additional annual needs between 750 and 800 billion euros.

⁵ Schwab, T., "Quo Vadis, Cohesion Policy? European Regional Development at a Crossroads", *Intereconomics*, Volume 59, 2024, Number 5, pp. 284–292.

aid intensity funding for investments by large enterprises, subject to limitations, are already in place to reduce the risks associated with funding for large companies. Other measures could be developed to ensure an effective allocation of EU funds but these must be carefully considered, to avoid a phenomenon of investment leakage in Europe.

- **Focus on performance:** As clearly stated by the European Court of Auditors, there are insufficient financial incentives for good performance⁶. Important delays in terms of implementation of this policy, particularly in the first years of each cycle, lead to problems of absorption capacity towards the end of the period. This results in a greater focus on spending money fast and overshadows considerations of performance.
- **Focus on regional needs:** We need a more agile cohesion policy, but it is important to ensure that the model meets regional, including overseas regions, needs. The limits to the adoption of an RRF top-down approach must be understood. We call for a multilevel governance approach to be fully embraced in the next programming period, overcoming the mere involvement of the social partners in the surveillance committees and ensuring actual consultation and partnership.
- **Place-based approach:** To maximize regional impact, cohesion policy should explicitly advocate the creation of local economic development plans tailored to the unique strengths, challenges and opportunities of each region (place-based approach). These plans should be developed following comprehensive local diagnostic analyses, involving regional stakeholders closely. Such an approach would ensure investments are highly targeted, locally relevant and effectively contribute to sustainable economic growth and territorial cohesion, but should be also connected to the national and EU strategic goals.
- **Strengthen link with reforms:** The European Semester conditions are usually directed at national governments, where often regions alone cannot act. There is however the possibility of linking regional cohesion efforts with the European Semester recommendations -while keeping in mind their annual nature, as opposed to the more long-term nature of the cohesion policy, which should be done to improve policy coherence across EU territories.
- **Crisis Response Mechanism:** In recent years, cohesion policy served as the main instrument to respond to crisis, and it showed the importance of having built-in flexibility in this policy for unforeseen circumstances to reach long-term objectives. However, and while it is important to ensure flexibility for resource reallocation during crises, the volume of the funds will never be sufficient to respond to major shocks – this must be handled by a separate mechanism to ensure cohesion policy maintains a long-term focus on structural development.
- **A policy for all regions:** All regions face specific challenges, including the ones economically strong today. Cohesion policy must respond more strongly to future challenges and support all regions in their structural transformation and resilience.

⁶ European Court of Auditors, Briefing paper “Delivering performance in cohesion”, June 2019.

EUROPEAN SOCIAL FUND +

The European Social Fund (ESF) is the EU's main instrument for investing in people and supporting initiatives on education & skills, employment, capacity building of national social partners, and active inclusion. Notably, the program has the potential to address the labour and skills shortages present in the EU today. The ESF post-2027 should have a more dedicated focus on upskilling, reskilling and supporting labour market access. BusinessEurope has identified the following priorities for the new ESF program period:

- ESF funds should be linked to the complete implementation of agreed reforms and policies. It is essential to reinforce the link between the political priorities established in the European Semester process and the EU funding instruments, particularly the ESF.
- Following a recommendation included in Draghi's report, ESF resources have to be allocated more effectively to achieve greater impact and be subject to impact evaluation. In parallel, it is necessary to continue with simplification efforts for those managing and using ESF resources in order not to create excessive administrative burden, which can hinder the implementation of ESF funded activities, and even discourage employers from applying for ESF funding
- ESF should support skills development. 50% of ESF resources should be earmarked to stimulate investments in re-skilling and upskilling of workforces, and also to achieve the EU target of 60% of adults participating in training every year by 2030. Within this earmarking, 15% should be allocated to financial incentives to encourage employers to provide training. There should also be a focus on reducing skills mismatches as part of the Erasmus program 2028-2034.
- ESF should promote up-to-date and attractive vocational education and training (VET) systems, e.g. by investments in VET, by supporting employers' apprenticeship programs, and by furthering adult apprenticeship schemes. Social partners play an important role in the success of VET, with the importance of a strong partnership between VET providers, social partners and governments.
- The European Commission should support the provision of ESF resources for the continued capacity-building of national social partners, establishing the principle of a differentiated approach between social partners and NGOs as concerns the allocation of ESF funds for capacity-building.
- Employers and industry actors must be closely involved in the design and implementation of ESF programs. This principle extends to the upcoming implementation of the Social Climate Fund. Social partners need to be engaged from the outset in the development of social climate plans to ensure efficient fund allocation for structural reforms and cushioning measures that incentivise the labour market and support competitiveness.
- With growing pressure on resources, the ESF funding should adhere to its main purposes of human capital development.

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Avenue de Cortenbergh 168
B - 1000 Brussels, Belgium
Tel: +32(0)22376511 / Fax: +32(0)22311445
E-mail: main@businessseurope.eu

WWW.BUSINESSEUROPE.EU

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