Furthering cohesion in an enlarged Europe

Impacts of enlargement on regional Cohesion Policy allocations

Abstract

With the recent addition of Ukraine, Moldova, Georgia and Bosnia-Herzegovina, the EU has now 9 candidate countries, of which all but Turkey have realistic chances to join the EU in the next 15 years. As all of them have a GDP/capita far under the EU average, they are likely to attract significant investments from the EU funds, and particular from Cohesion Policy. This has generated fears of unsustainable costs for the Cohesion Policy.

In order to present a more realistic analysis of the implications of the allocation of Cohesion Policy funds, this study will compare a no-enlargement scenario to a staged enlargement, where first the Western Balkan countries will join, followed by Ukraine, Moldova and Georgia. It will assume no changes to the financial allocation mechanism.

We find that a staged enlargement will lead to a higher Cohesion Policy budget than without enlargement, but that in both scenarios it will be counterintuitively smaller than during the present 2021-2027 period. A combination of macroeconomic changes and statistical effects lead to these results, despite development trends showing many regions of the EU finding themselves in a declining economic trend.

This implies that rather than worrying about the budgetary risks of Cohesion Policy, we should worry about policy coherence, distributional fairness and growing regional disparities. The financial allocations method needs to be revisited and made more dynamically aligned to the present and future economic context and objectives of the European Union.
1 Introduction

The Cohesion Policy’s approach to regional policy is inherently prosperity-based approach aimed at facilitating the development and integration of regions within the single market. The theoretical foundation is found in influential core-periphery economic studies\(^1\) that indicated that the single market would accelerate the accumulation of economic activities in core regions, thereby exacerbating territorial economic disparities. This is reflected in the chosen allocation formula (called Berlin formula) which has remained strongly linked to the GDP per capita in the regions as a proxy of prosperity and fiscal capacity of the regions. As a result, the less prosperous a region is, the more Cohesion Policy will support (and fund) it in order to grow and unleash its full economic potential. With the entry of numerous new Member States, all of which are less prosperous than their ‘old’ counterparts, the demand for Cohesion Policy funding is expected to rise. Meanwhile, older Member States may experience reduced allocations. In summary, this underlying assumption surfaces whenever discussions centre on the potential impact of enlargement on the Cohesion Policy budget.

Some studies have already been published, looking at the impacts of enlargement on the EU budget as a whole, with Cohesion Policy being one of the components addressed. And while they have overall disproven\(^2\) concerns\(^3\) of enlargement blowing up the EU budget, there are concerns that the present beneficiaries of the policy would suffer a significant reduction of allocations based on two effects: First that the relative prosperity of existing member states’ regions would rise as the average GDP per capita falls due to the entry of poorer members. This is the so-called statistical effect, in which regions change their development category and thus lose part of their eligibility for support. The second effect is the refusal of member states to increase the European Union’s budget to accommodate the cost of an extension of the policy to the new member states, which would lead to cuts in the financial allocations across all regions.

This paper analyses the impacts of the expected enlargements on the regions of the EU with a number of scenarios seeking to offer some realistic estimates based on the present allocation rules. It looks at the ‘what’, ‘how’ and ‘where’ of the impacts: What will a realistic enlargement look like? How will it impact individual regions’ allocations? And where would CP allocations be if there were no enlargement? Those are questions that have not yet been addressed. Yet, they are vital both for the broader understanding of the issues at stake, as well as the discussions around the post-27 future of cohesion policy. With one or several rounds of enlargement expected to happen in the next decade, the decisions negotiated in the next two years on the future of the EU budget post 2027 will influence both the impact on old EU regions as well as the new Member States. These decisions need to be made based on an understanding of realistic base scenarios on what would happen without changes in the policy with or without enlargement. This can then help design any reforms.

The scenarios in this paper are based on a base scenario constructed using economic and population trends from reputed and specialised centres of statistical research, i.e. Eurostat and ESPON. It will not

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1 Numerous studies in the 1980s and 1990s by Paul Krugman and Antony Venables.
3 Financial Times (2023). “EU estimates Ukraine entitled to €186bn after accession.” https://www.ft.com/content/a8834254-b8f9-4385-b043-04c2a7cd54c8
explore impacts of changes in geopolitics, deviations in macroeconomic development, climate change shocks or political uncertainty. Some of those can be modelled, but this study aims to explain exclusively the implications of the allocation of the funds from the process of enlargement under a stable scenario under existing conditions.

This will allow to pinpoint the elements in the allocation process that deserve attention, how the different elements of the Berlin Formula will behave in an enlargement scenario and whether they will continue to provide an equilibrium between the need to allocate funding in a place-based approach where it is needed most, and the practical necessity to not disproportionately change the CP budget or national and regional allocations.

To this end, the study focuses first on the methodological approach and the definition of the main hypotheses this paper wants to look into. Following this, it plays through a range of scenarios for the future of Cohesion Policy, including no enlargement immediate enlargement, and staged enlargement. Finally, we will take stock of the results and main outcomes and try to answer the three questions referred to earlier.

2 Methodology

The approach of this paper will be to analyse the impact of a realistic staged enlargement compared to a base scenario without enlargement using the present methodology for the allocation of the funds. For illustration purposes a scenario in which all candidate countries join immediately has also been performed which shows how not accounting for changes in the economy and demographics affects the results.

2.1 The Berlin Formula

The so-called Berlin Formula together with the economic and demographic trends forms the core of the analytical approach. The Berlin formula has been used since 1999 to determine the allocations of Cohesion Policy funding for each EU Member State based on regional indicators, mainly GDP per capita and employment. While some aspects of it have been modified between programming periods, such as caps, minimum and maximum allocations, country and regional coefficients as well as a number of premiums for non-GDP related aspects, it has maintained its basic tenants. This concerns in particular the differentiation between less developed, transition and more developed regions, based on the difference between a regions’ per capita GDP and the average EU per capita GDP (in purchasing power standards)⁴, whose individual allocations will then be summed up at MS (Member State) level. For this reason, we assume in our calculations that the basic concepts of the Berlin Formula will continue to be used for the next programming periods even in the event of an EU enlargement, as was the case during the 2004, 2007 and 2013 enlargements.

In our calculations, we base ourselves primarily on the methodology, values and coefficients proposed in Annex XXVI of the 2021-2027 Common Provisions Regulation⁵. The main aspects of the calculations by category of regions are provided in Figure 1. Over the past programming periods, elements not directly related to prosperity (i.e. the main factors and adjusting coefficients) have increased in importance, these are premiums related to the labour market, education, demographics, climate or migration. In the 2014-20 programming period, those factors accounted for 14%, while in the current

⁴ As GNI data is not available for enlargement countries, we have decided to use GDP per capita throughout the calculations in order to present coherent and coherent calculations.
⁵ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1060
programming period they account for 19% of total allocations\(^6\). As the specificities of these premiums and criteria vary between periods, we do not calculate those but use a 19% flat-rate at MS level as proxy.

While we can expect, therefore, the main concepts of the Berlin Formula to remain unchanged, it has to be mentioned that adjusting coefficients and additional premiums for less developed regions, the fixed budget for more developed regions, the premiums for transition regions, as well as the fixed budget for the Cohesion Fund, are the most modified elements of the Berlin Formula.

Other elements which frequently changes and therefore can only be approximated by using the current values are **caps and safety nets at Member state level**. Each MS, depending on its GNI per capita level, has a safety net and cap linked to the allocations of the previous programming period to avoid large fluctuations in allocations. Similarly linked to the GNI per capita level is a cap of the size of support expressed in a percentage of a Member States’ GDP (in Euro) which is based on the notion that there is a limit in capacity in member states to efficiently allocate sums exceeding a certain level of its GDP. These elements can only be approximated using the current coefficients. Of course, any allocations will be directly affected by the GDP growth assumptions, which we base on trends by existing specialist studies.

To understand the potential issues emerging from enlargement for Cohesion Policy, we use the current values and rules of the Berlin formula to estimate impacts on the allocation of funding without policy changes. We also use constant 2018 prices throughout in line with the allocations approved in the MFF Regulation 2020/2093\(^7\) and to allow comparisons.

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The data for the base scenario

As we have established in the section above, 81% of allocations are determined by GDP/GNI and the population. It is therefore important that our projections of those two aspects over the next decade are as precise as possible. Concerning population, EUROSTAT provides a database at NUTS-3 level projecting total population numbers until 2100. Summing up those numbers at NUTS-2 level (NUTS-2021 regions) provides a reliable base to estimate of future EU population numbers. For the candidate countries, we based ourselves on the UN World Population Prospects. For the candidate countries which have part of their territory currently occupied by Russia (Ukraine, Moldova, Georgia), estimations follow the approach the EU takes to Cyprus, i.e. the entire population is taken into account including in currently occupied areas. For Serbia, Kosovo has been excluded from the population due to its partly recognized status and the low likelihood that it will join the EU as part of Serbia.

GDP/GNI numbers prove more difficult to estimate due to the recent cascade of crisis (2011 debt crisis, climate crisis, COVID-crisis, energy crisis as consequence of Russia’s invasion of Ukraine) which profoundly impacts macroeconomic patterns throughout the EU and the enlargement countries. Estimations have mostly been done at Member State level and vary widely between sources. For EU regions, we therefore turned to the average GDP growth rate projections made at NUTS-2 level using the MASST4 model by Capello and Caragliu, who have kindly provided us with their results and data.

The projection is based on the results of their work on the 2019 ESPON report *A Territorial Reference Framework for Europe* and was subsequently published in 2021 in the *Annals of Regional Science* (see box below). It was finalized before the start of the COVID-pandemic and can therefore stand in as a ‘return to normalcy’ scenario in which pre-COVID dynamics of medium growth and convergence of regions towards the EU average continue, while investments in innovation and advanced manufacturing slowly increase. Capello and Caragliu also developed a new scenario which includes the rebound of the COVID crisis, with significantly higher growth rates until 2030 due to investments in innovation and technology. But given the impact of Russia’s invasion of Ukraine and subsequent inflationary pressures, and the fact that the European Commission projects that growth rates will remain relatively low at least until 2026, we decided to rely on the first model as it resembles more closely the current macroeconomic environment.

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9 https://population.un.org/wpp/
10 Non exhaustive list of projections:
   - https://data.oecd.org/gdp/real-gdp-forecast.htm
Description of the economic scenario


[The scenario] is based on stable demography, increasing ageing and migration. From a macroeconomic point of view, the scenario is based on the general assumption that the structural changes that occurred during the (financial) crisis remain prevalent in future, with a likely moderate growth and increasing disparities. [...] The narrative of the scenario assumes that different, often contradictory and reactive policy responses are given in Europe to the most pressing short-term uncertainties. The paramount political aim is assuring stability for Europe to deal with the growing uncertainty and feelings of national governments losing control and the ‘ungovernability’ of migration and global corporations. Many governments are nowadays moving towards protectionism, and external events are often considered threats to wellbeing or security. There is a more or less intense rise of “retrospective values” everywhere and a tendency towards more authoritarian and competitive – rather than cooperative – government. Consequently, Euroscepticism grows. The scenario is characterized overall by political changes that pretend to repair rather than to reform government structures.

[The scenario] is a reactive but flexible, pragmatic, utilitarian decision-making - the so-called “entrepreneurial” government style. This scenario assumes “governing by authority” to a large extent, and suggests the use of traditional forms of authority, such as regulation and direction. Under the omnipresent condition of “pervasive uncertainty”, the policy responses being taken by European institutions, under this scenario, have a far greater focus on risk and crisis management and there is an overall aim of flexibility and speed as a pre-condition to most effective policy reactions. The precautionary principle remains central but there is an increasing need to apply the innovation principle to shape change in a positive way. There will be a continuous challenge to existing structures and processes, implying a need for stronger efforts of more traditional political actors to remain relevant. This political tendency, which will most likely have to accept the inevitability of this environment of continuous change, will coexist with a strengthened, more populist-oriented narrative based on national identity, borders and protection. At the same time, it is possible that recentralization at Member State level will pave the way towards internal territorial reforms.

We used the average growth rates provided by the projection to calculate the GDP of each EU NUTS-2 region until 2041, starting from the most recent 2022 Eurostat GDP figures\(^{15}\), which is the timeframe necessary for the calculation of allocations until a potential 2035-2041 programming period. This assumes that programming periods will continue to be 7 years as in the past. For enlargement countries, we based ourselves on an average of the growth rate estimates made by the IMF\(^{16}\) at national level, starting with the most recent GDP data made available by Eurostat or the national statistics agencies\(^{17}\). As we are not looking at the impact of enlargement on CP funding in those countries at regional level, but rather treat them as an exogenous influence on the EU regions\(^{18}\), we can use these country-level proxies.

\(^{15}\) https://ec.europa.eu/eurostat/databrowser/view/nama_10r_2gdp/default/table?lang=en
\(^{16}\) World Economic Outlook [October 2023] - Real GDP growth (imf.org)
\(^{17}\) For most enlargement countries 2022 GDP data was available, where not we used the most recent data.
\(^{18}\) The only exception is the -22,9% growth rate for Ukraine in 2022 due to the Russian invasion.
The map above in Figure 2 shows the status the regions would have in the 2028-2034 Programming period (PP) based on the projections from the data sources. The coloured frames indicate that based on the existing trends some regions at risk to be downgraded (red) or upgraded (green). As we can see, upgrades concentrate mainly in the central and eastern Member States, and particularly in the south-east. No downgrades are expected to take place in this part of Europe. The downgrades, on the other hand, are concentrated in central and western Member States. Interestingly, most regions affected by downgrades are transition regions, while most upgrades will take place in less developed regions.

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19 As allocations are calculated at NUTS 2 level, the indicated regions are not always identical with administrative regions. For example, NUTS 2 regions in France correspond to the regions before the ‘Loi NOTRe’ reform, while the current administrative regions are NUTS-1 level regions.

20 No population and GDP projection data was yet available for the Outermost Region of Saint Martin, therefore the region is not included.
This signifies that, in reverse, more developed regions are much less affected by downgrades, while transition regions are less affected by upgrades. The results are consistent with the development trap concerns of the High-Level Group report on the future of Cohesion.

**Scenario and calculations**

With the assumptions and data in place, it is now possible to proceed to the design of the scenario and the calculations. The goal is to have one scenario in which no enlargement take place, one scenario with immediate enlargement and one scenario with staged enlargement. In the no-enlargement scenario, we assume that by 1 January 2042, no new MS will have joined, and no ‘old’ MS will have withdrawn from the EU. In the immediate enlargement scenario for illustration, the assumption is that all candidate countries become full members as of 1 January 2028.

In the staged enlargement scenario, we project a phased enlargement in two rounds: A first round including the countries of the Western Balkans (except Kosovo) in 2030, and a second round including Ukraine, Moldova and Georgia in 2037. In the enlargement scenarios, we will not include a phasing-in period of Cohesion Funds for new Member States (i.e. the gradual year-by-year increase of allocations to 100%) even though this was the case in previous enlargement rounds, in order to directly visualise the maximum impact of the new MS on the CP allocations of the ‘old’ regions and MS and the overall budget.

As in previous enlargements, we expect these accessions will happen in the middle of the ongoing Multiannual Financial Framework (MFF). Under the assumption that future MFFs will continue to cover 7 years, we will see the first round of enlargement in the third year of the 2028-2034 PP and the second round in the third year of the 2035-2041 PP. As CP allocations are linked between periods by minimum and maximum allocations related to the previous PP, it is necessary to calculate the total allocations for both PP in order to get the correct final amounts for both staged enlargement and no enlargement.

The calculations will not include the allocations made under the European territorial cooperation goal (Interreg), as these represent only a small amount of the overall budget, and we cannot estimate which cross-border and transnational programmes will be put in place covering the new MS in the future. In our comparisons and calculations, we will therefore always only refer to the allocations under what is currently referred to as the Investment for jobs and growth goal and the Cohesion Fund.

**Main hypotheses**

Enlargement is expected to influence the allocation of Cohesion Policy funds in ‘old’ EU regions. This paper wants to analyse how this influence will occur, taking into account the projected economic development of the regions. The main hypotheses and assumptions we want to test are the following:

1. The reduced average EU GDP/capita (due to the lower GDP/capita in the new MS) makes regions and countries move up by at least one category, leading to a loss of CP funding compared to a non-enlargement scenario.
2. The GDP caps will help contain the amount of CP funding going to the new MS.
3. The budget for CP will need to increase significantly in an enlargement scenario if the present formula of allocation remains unchanged

**3 Scenarios**

In order to assess the impact of enlargement on current EU regions’ CP allocations, we have modelled three scenarios for the future of CP. The first is a business-as-usual scenario, where no enlargement takes place until at least 2041 and the Berlin Formula remains in its current form. It will serve as
baseline scenario to assess the impact of enlargement and the changes induced. The second scenario is what we call the impossible scenario. It simulates the entry of all candidate countries in time for the next MFF. It needs to be stressed that the possibility of this occurring is practically null, but for analysis purposes the scenario still provides useful insights. Lastly, we have the likely scenario. Here, we see a staged entry of the candidate countries, with the Western Balkans entering in 2030 and Ukraine, Moldova and Georgia in 2037. This timeframe can be considered realistic given the current geopolitical and macroeconomic contexts, although exact dates will depend on political decisions taken further down the road.

3.1 The no-enlargement scenario

This scenario simply applies the current version of the Berlin formula on regions in current Member States over the next two programming periods. In particular, we calculate the future prosperity and then apply it to the regions in order to account for changes in GDP and population over the period.

<table>
<thead>
<tr>
<th>Total CP budget</th>
<th>No enlargement 2028-2034</th>
<th>No enlargement 2035-2041</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average allocation/capita/year</td>
<td>€357 billion</td>
<td>€325 billion</td>
</tr>
<tr>
<td>Average GDP/capita</td>
<td>113€</td>
<td>103 €</td>
</tr>
<tr>
<td>No of LD/TR/MD regions</td>
<td>79/75/88</td>
<td>76/70/96</td>
</tr>
<tr>
<td>Min GDP in % of EU av.</td>
<td>27%</td>
<td>23%</td>
</tr>
<tr>
<td>Max GDP in % of EU av.</td>
<td>278%</td>
<td>252%</td>
</tr>
<tr>
<td>Median regional GDP in % of EU av.</td>
<td>89%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Table 1: The no-enlargement scenario

The results of our analysis (Table 1) shows that given current trends in regional prosperity and the way allocations are currently calculated, the budget would continuously shrink over the two periods, being around 12% lower in the 2035-2041 period compared to the current programming period. At first glance, this seems logical as the number of more developed regions has increased significantly, and the number of less developed and transition regions has decreased. Nonetheless, this observation seems at odds with the fact that if the current trends remain, the median regional GDP/capita only increases by 1%. This signifies that half of EU regions will continue to have a GDP/capita under 90%, meaning that not many of the 11 regions moving up categories actually cross that threshold. Rather, it will be regions already close to the category. The question which poses itself here is why the overall budget still decreases so drastically.

Looking at Figure 3 below, we see that the final allocations of most Member States follow relatively clear paths, i.e. increasing or decreasing compared to the previous period. The largest total decreases in financial allocations can be found in high-growth central and eastern European Member States, due to changes in country coefficients and regional classification. Only Bulgaria, Greece, Spain and Slovakia show continuous increases in their total allocations, while for some medium-prosperity countries there is no clear trend. Overall, this points to an important re-composition of the allocation landscape over the following programming periods, which needs to be taken into account if the impacts of enlargement on Cohesion Policy allocations are to be estimated even remotely accurate.

3.1 The allocation impacts caused by the statistical effects of enlargement

One important aspect to understand in the allocation of the CP funds is that the formula depends on a considerable number of variables as Figure 1 already depicted, and also includes caps that avoid payments beyond certain thresholds or abrupt changes in financial allocations. All these factors ensure
that the budget remains stable while providing a palette of negotiable financial allocation keys. It can also, however, result in outcomes that do not seem to fully reflect the disparities between regions. To help understanding the impacts in the following scenarios, **Erreur ! Source du renvoi introuvable.** summarises how changes affect the allocations applying the present formula, with its variables and coefficients.

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional prosperity gap</td>
<td>Difference between the average EU GDP/capita and the regional GDP/capita. The larger the downward gap, the more funding will be allocated to the region.</td>
</tr>
<tr>
<td>National prosperity coefficient (country coefficient)</td>
<td>Coefficient depending on the national GDP/capita. The lower the national GDP/capita, the higher the coefficient. Relevant for calculating allocations to less developed and transition regions, where the higher the country coefficient, the higher the regional allocations. Also relevant for the calculation of Cohesion Fund allocations where applicable.</td>
</tr>
<tr>
<td>Premiums</td>
<td>Non-prosperity related factors used in the calculation of regional allocations. They are added on to the regional allocations after the calculation of the prosperity-related allocations.</td>
</tr>
<tr>
<td>GDP cap</td>
<td>Maximum amount of funding a Member State can receive per year, expressed in % of national GDP. It avoids the excessive allocation of funding in less prosperous member states, which would exceed their absorption capacity.</td>
</tr>
<tr>
<td>Pre-final allocation</td>
<td>National allocation after the application of the GDP cap, but before the application of the minima/maxima (see below).</td>
</tr>
<tr>
<td>Minima/Maxima</td>
<td>Minimum/maximum allocation a Member State can receive, expressed in % of the allocation of the previous programming period. They moderate changes in allocations between periods upwards (maxima) and downwards (minima).</td>
</tr>
<tr>
<td>Final allocation</td>
<td>Total allocation at national level after applying all caps and safety nets described above. If the final allocation is higher of lower than the sum of the regional allocations, those will be adapted based on their relative share before caps and safety nets.</td>
</tr>
</tbody>
</table>

*Table 2: Overview over the main elements of the Berlin Formula*
Figure 3: Final allocations in the no-enlargement scenario
3.2 The impossible scenario – full enlargement for the next MFF

Before looking at the most likely scenario for enlargement, the staged entry of the Western Balkans followed by Ukraine, Georgia and Moldova, it is useful to present this unlikely, but important-to-understand counterfactual scenario. In analysing what would happen if all candidate countries would become full members in time for the post-2027 MFF and next Cohesion Policy budget, it will help set a frame of reference for the ‘likely’ scenario. It provides a maximalist picture of the impact on current EU regions, as well as on the overall Cohesion Policy budget.

This scenario presents what would happen if all new MS would join using the 21-27 programming period variant of the Berlin Formula. All of this is done without a phasing in period of the new MS, as we assume they will be full members by 01 January 2028.

<table>
<thead>
<tr>
<th></th>
<th>No enlargement 2028-2034</th>
<th>Immediate enlargement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total CP budget</td>
<td>€357 billion</td>
<td>€363 billion</td>
</tr>
<tr>
<td>Average allocation/capita/year</td>
<td>113€</td>
<td>101€</td>
</tr>
<tr>
<td>Average GDP/capita</td>
<td>35.831 €</td>
<td>32.881 €</td>
</tr>
<tr>
<td>Only regions of current EU MS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of LD/TR/MD regions</td>
<td>79/75/88</td>
<td>55/74/113</td>
</tr>
<tr>
<td>Min GDP in % of EU av.</td>
<td>27%</td>
<td>30%</td>
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<tr>
<td>Max GDP in % of EU av.</td>
<td>278%</td>
<td>303%</td>
</tr>
<tr>
<td>Median regional GDP in % of EU av.</td>
<td>89%</td>
<td>97%</td>
</tr>
</tbody>
</table>

Table 3: Results of the impossible scenario

This scenario assumes that the allocation formula as set out in the current CPR will be kept as-is. As we can see in Table 3 above, this will result in a total Cohesion Policy budget similar to the one in the current programming period, only €6.5 billion higher than in a no-enlargement scenario. As the total sum allocated to the new MS would amount to €68 billion, this signifies that €61.5 billion (approximately €9 billion a year) would be reallocated from current EU regions to the new MS via automatic changes due to the effect of GDP growth on the regional classification and country coefficients and in limited cases also due to the statistical effect as indicated above. Graphically, the changes of total allocations and per capita allocations are presented in Figure 4 and Figure 5.

At the Member State level, the greatest effect would be on those with the highest share of less developed regions at the brink of becoming transition regions, those Member States that see a change in their country coefficient and those which cease to be eligible for the Cohesion Fund. The least impacted would be those Member States hitting their maximum and minimum allocations linked to the previous programming period in both sub-scenarios.

Intermediate conclusions

No enlargement will take place before the adoption of the next MFF, nor will all countries join at once. Still, this exercise showcases some important insights that help assess the findings of the staged enlargement scenario in the section below. Introducing trends over the next years considerable changes the picture and impacts. The results show that the Cohesion Policy budget would no ‘blow up’ the EU budget, even in this maximalist scenario.
Figure 4: Total allocations 2028-2034

Figure 5: Yearly per-capita allocations 2028-2034
3.3 Building more realistic scenarios - the staged enlargement

The economic and demographic trends will change considerably over the next 15 to 20 years. To understand the impacts and inform policy makers of the potential pain points, it is important to analyse trends. The trends we use are projections by reputed institutes and show which ones are going to be lagging behind and which ones are on a positive path. This is important as the categories of regions are calculated based on the relative position of the regions compared to the EU average. Regions in a development trap with positive but low growth, may for example be downgraded in category (for example transition to less developed) even without enlargement, others may become more prosperous and change category and lose eligibility even without enlargement. It is thus important to simulate a staged enlargement scenario. We will first look at the first round of enlargement (Western Balkans) in 2030, compare it to the baseline scenario, and then move on to the second round of enlargement (Ukraine, Moldova and Georgia). For the 2035-2042 PP, we will not project a scenario under which only the Western Balkan countries are members, as that is out of the scope of the formulated in section 2.

3.3.1 2030 – A small step for the EU Budget, but a big step for the Western Balkans

Even though the share of less developed regions increases, the CP budget would decrease

Table 4 below compares funding and distribution of regions between an enlargement and no-enlargement scenario during the 2028-2034 programming period. What immediately stands out is that CP under an enlargement scenario is €6 billion cheaper than without enlargement. This is due to the GDP caps applied to the new MS which ‘cap away’ a large part of their theoretical, pre-cap allocation (this will be further discussed in the ‘conclusions’ section).

In both scenarios, the total budget for CP is still between 4% and 5% lower than during the 2021-2027 period. While it has to be considered that the new Member States only receive allocations for five of the seven years of the PP, it still demonstrates that the entry of the Western Balkan countries into the EU will not lead to a disproportionate increase in the CP budget under current rules. Even if the new MS would enter for the full 7-years, the additional €6 billion would not result in a CP budget higher than the 2021-2027 period.

When looking only at regions is current EU MS, we see that the total number of regions by category does not change significantly between scenarios, which is linked to the fact that the average GDP per capita is only reduced by around 2% compared to the non-enlargement scenario. Eight regions enter the more developed category, and other seven are moving up from the less developed to the transition category. Nonetheless, 60% of regions of current EU MS will still have a GDP/capita (in PPS) below the EU average if the enlargement happens (compared to 64% without enlargement), to which the around 11 NUTS-2 regions of the new MS (likely all in the less developed category) will need to be added. This means that the overall share of less developed regions is likely to increase more than the share of transition or more developed regions.

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21 The new NUTS-2 regions in the WB are likely to be: Veri, Qender, Jug (Albania); Federation of Bosnia and Herzegovina, Republika Srpska (Bosnia and Herzegovina); Beogradski region, Vojvodine, Sumadije i Zapadne Srbije, Juzne i Istocne Srbije (Serbia); Montenegro (national); North Macedonia (national).
<table>
<thead>
<tr>
<th></th>
<th>No enlargement</th>
<th>1st enlargement 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total CP budget</strong></td>
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<td><strong>Average GDP/capita</strong></td>
<td>35.831 €</td>
<td>35.079 €</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Only regions of current EU MS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>No of LD/TR/MD regions</strong></td>
<td>79/75/88</td>
<td>72/74/96</td>
</tr>
<tr>
<td><strong>Min GDP in % of EU av.</strong></td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td><strong>Max GDP in % of EU av.</strong></td>
<td>278%</td>
<td>284%</td>
</tr>
<tr>
<td><strong>Median regional GDP in % of EU av.</strong></td>
<td>89%</td>
<td>91%</td>
</tr>
</tbody>
</table>

Table 4: Results of the first round of enlargement in 2030

Figure 6 below visualises the change of category induced by the enlargement. As we can see, the category changes due to the statistical effect are not restricted to a specific part of Europe or a specific type of more or less prosperous country. Rather, it will be regions which are only slightly under the threshold to move up one category, and the impact therefore, due to the linear nature of the transition between categories, is limited.

**Links to the previous programming period are very important in determining new CP allocations**

Figure 7 below show the allocations by Member State for the 2028-2034 programming period. It compares the final allocations\(^{22}\) for both scenarios. The results are quite surprising, as the main loss of funding are concentrated in Poland, which changes country coefficient, and to a smaller extent in some other Member States, while in most, allocations remain unchanged.

The differences in final allocations between the enlargement and no-enlargement scenarios can only be seen for countries who do not hit the minimum/maximum linked to the previous PP in both scenarios. Those minima and maxima are in place to avoid large changes in allocations between programming periods. They result in only 7 out of 27 MS changing final allocations between scenarios, with those differences in final allocations varying between -1% and -26%.

The reason for this high number of Member States which do not change allocations becomes more comprehensible when looking at the impact of enlargement on the pre-final allocations (only applying the GDP cap). In fact, the impact of enlargement on Member States’ pre-final allocations (without applying minima or maxima) is for the most part between 0%\(^{23}\) and -12%, which is linked to the small decrease in average GDP per capita of around 2%. Outliers are Poland, Czechia and Slovenia, with -27%, -33% and -28% respectively.

The minima and maxima then largely eliminate the difference scenarios, due to the link to the previous PP. This creates a situation where there is a large difference between pre-final and final allocations in some Member States, while in others, the difference is none, and leads to only a few being impacted by the enlargement in their final allocations.

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\(^{22}\) applying the minima/maxima related to the previous period, as well as GDP caps

\(^{23}\) Those are MS only containing only more developed regions or whose allocations hit the GDP cap.
Figure 6: Regions changing categories during the first round of enlargement due to the statistical effect
Figure 7: Allocations for 2028-2034
The benefit of being just poor enough, or hitting that sweet spot for CP allocations

Another interesting aspect to consider is the distribution of the yearly allocations per capita in relation to GDP/capita. Figure 8 demonstrates that, for a no-enlargement scenario, the graph displays a downward curve which descends steeply for the less and medium prosperous MS up to the average EU GDP/capita, after which richer MS are clustered together, with Ireland and Luxembourg notable outliers due to their highly elevated GDP/capita.

The above mentioned distribution contrasts to what happens in an enlargement scenario. In Figure 9, we can identify a bell curve along which Member States are distributed. Four of the five new MS, which are also those with the lowest GDP/capita, receive lower allocations/capita compared to richer ‘less developed’ MS. This is linked to the GDP cap, which reduces the total allocation to a significant extent compared to a no-cap scenario.

Albania, the least prosperous of the new MS (in PPS), would for example only receive 28% of its uncapped allocation. Montenegro (which is the outlier amongst the new MS), on the other hand, was already more prosperous to begin with than the other new MS, and would receive 64% of its initial
allocation, resulting also in a higher per capita allocation. We can therefore assume that there is a sweet spot in Cohesion Policy allocations where a new Member State is rich enough to be mostly unaffected by the GDP cap, but still less prosperous to an extent where it will receive a high amount of per capita funding.

**Intermediate conclusions**

In conclusion, we see that the impact of the first round of enlargement during the 2028-2034 programming period is minimal, for the overall budget of Cohesion Policy compared to the current programming period. The impact on current Member States’ allocations compared to a no-enlargement scenario, on the other hand, sees important changes for a small number of less prosperous Member States. Still, for the vast majority of ‘old’ Member States, much more relevant, and determining, are the overall shifts in relative prosperity and, consequently, the minimum and maximum allocations related to the previous programming period.

### 3.3.2 2037 — Budgetary cataclysm or just another enlargement?

**The budget holds!**

Should Ukraine, Moldova and Georgia join in 2037, they would be EU members for 4 out of the 7 years of the 2035-2041 PP. In confronting this scenario with a no-enlargement scenario, it becomes clear that the current version of the Berlin Formula would allow the integration of the three new MS, in addition to the Western Balkan countries in the previous period, without exceeding the 2021-2027 or 2028-2034 CP budget (€369 billion vs. €351 billion vs. €345 billion). In total, the ‘new’ MS (Ukraine, Moldova and Georgia) would be due to receive 36 billion during this period. As the total CP budget would be €20 billion higher than without enlargement, only €16 billion would be reallocated from ‘old’ MS (including the Western Balkans) to the new joiners. Without the entry of the new MS, the total budget (€325 billion) would be 12% lower than 21-27 and 9% lower than 2028-2034.

**A more profound impact on current EU regions**

What becomes obvious here, is that the impact on region and country categorisation is much more pronounced than in the first round of enlargement. This should not be surprising given that the average GDP-capita is now 7% lower compared to a no-enlargement scenario. 18 regions are rising from transition to more developed status, while 14 shift from less developed to transition status. Interestingly, Montenegro, in the event of a second round of enlargement, would also move up to become a transition region (without changing the country coefficient, though). Furthermore, four current MS change country coefficient moving up from the lowest to the medium category (2,85% to 1,25%), and a further three from the medium to the highest category (1,25% to 0,75%).

<table>
<thead>
<tr>
<th></th>
<th>No enlargement</th>
<th>2nd Enlargement 2037</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total CP budget</strong></td>
<td>€325 billion</td>
<td>€345 billion</td>
</tr>
<tr>
<td><strong>Av. allocation/capita/year</strong></td>
<td>103 €</td>
<td>96 €</td>
</tr>
<tr>
<td><strong>Average GDP/capita</strong></td>
<td>39.312 €</td>
<td>36.675 €</td>
</tr>
</tbody>
</table>

24 Note that this is compared to a scenario where the WB have not joined beforehand.

25 This does not include regions that change categories between programming periods, but merely compares categories between enlargement and no-enlargement.

26 Used to calculate the allocations for less developed and transition regions.
<table>
<thead>
<tr>
<th>Only regions of current EU MS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No of LD/TR/MD regions</td>
<td>76/70/96</td>
<td>60/67/115</td>
</tr>
<tr>
<td>Min GDP in % of EU av.</td>
<td>23%</td>
<td>25%</td>
</tr>
<tr>
<td>Max GDP in % of EU av.</td>
<td>252%</td>
<td>270%</td>
</tr>
<tr>
<td>Median regional GDP in % of EU av.</td>
<td>90%</td>
<td>97%</td>
</tr>
</tbody>
</table>

Table 5: Results of the first round of enlargement in 2037

What this means overall is that in an enlargement scenario, 48% of current EU regions will have a GDP/capita above the EU average, compared to only 40% in a no-enlargement scenario. Still, we need to consider that Ukraine, Moldova and Georgia will likely bring in around 29 new NUTS-2 regions27, to which we need to add the 11 Western Balkan regions as well, all but Montenegro less developed. This means that the overall share of less developed regions is likely to be 4% higher in the enlargement scenario, compared to a non-enlargement scenario. Transition regions, on the other hand, will see their share greatly reduced from 29% to 24%, while the share of more developed regions will be 1% higher.

The map below (Figure 10) shows which regions will be impacted by the statistical effect due to enlargement during the second wave, and while the changes are mostly evenly distributed throughout the EU, two geographies stand out (Figure 11). First, the old Balkan Member States are not at all impacted by the statistical effect. This showcases that they are still rather far away from the next upward category change. Second, the entirety of continental Portugal except Lisbon will be transition regions instead of less developed, impacting the national allocations. A final consideration in this context has to be that 11 regions would have been downgraded one category in absence of enlargement. This implies that they are in a downward trend compared to the EU average but will receive less funding due to the effect of enlargement.

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27 Ukrainian NUTS-2 regions will probably be the first level administrative units (24 oblasts, 2 cities with special status and the Autonomous Republic of Crimea, including currently occupied areas); Moldova and Georgia will probably form national level NUTS-2 regions similar to North Macedonia and Montenegro.
Figure 10: Regions changing categories during the second round of enlargement due to the statistical effect
Figure 11: Allocations for 2035-2041
While pre-final allocations change significantly, final allocations are buffered

The results we see in the graph above, which makes the same comparison as the figure in section 3.2.1, are quite different to those during the Western Balkan enlargement, but which was to be expected due to the significant shifts in the attribution of coefficients and categories due to the size and population of Ukraine in particular. A higher number of old MS displays significant differences between their enlargement and no-enlargement final allocations, and an even higher number displays larger differences between their pre-final allocations in both scenarios.

Nonetheless, in most cases the minima and maxima allocations act as a sufficient buffer to reduce the difference by 18% to 100% in the final allocation, depending on the gravity of the statistical effect. For countries who hit their minima or maxima allocation in both scenarios, this even reduces the difference to 0%. For rich countries whose maximum allocation shifts downward due to the upward move of their relative GDP this buffer does not work though. There, instead of reducing the difference in final allocations between enlargement and no-enlargement, the minimum/maximum allocation actually increases it.

**Misalignments due to minima, maxima, and GDP caps**

What cannot be seen in the graph is that the effect of the GDP caps in the enlargement scenario is significantly lower than in a no-enlargement scenario (€333 billion vs. €397 billion). This is due to the conjunction of new very-low GDP countries with capped allocations becoming eligible, and a significant number of medium-income regions and countries moving up categories due to the statistical effect. Accounting for the minima and maxima related to the 2028-2034 period, this is of course not the case anymore in the final allocations, where the total budget is indeed higher in the enlargement scenario.

The abovementioned distortions in the allocations between uncapped and capped final allocations due to the minimum and maximum level of GDP in the second round of enlargement also help to explain why the connection between GDP/capita and allocation/capita is less clear than in the first round of enlargement. Looking at the Figure 12, the bell curve we have seen for the first round of enlargement is now much less pronounced. We still see the cluster of more developed regions at the bottom of the chart to the right of the average GDP, but the low to medium prosperity MS are now much less aligned with their respective per capita allocations.

**Intermediate conclusions**

The Berlin Formula ensures a certain stability for the EU budget in the case of enlargements and GDP per capita shifts. It allows mathematically for a soft landing of the Cohesion Policy budget and most of the current allocations to member states even when larger candidate countries enter. However, this leads to a growing misalignment between GDP/capita and the per capita allocations in the programming periods. Regions may see their allocation fall despite there being no change in their circumstances. Nonetheless, it needs to be considered that with the current allocation formula, the burden of enlargement will largely fall on a smaller number of Member States which see their allocations reduced compared to the no-enlargement scenario. This is not to say that other MS will not see their allocations reduced or changed, but there it will be not due to enlargement, but to general macroeconomic trends.

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28 This is also the case for the first round of enlargement, but there it is indeed translated into a higher sum of final allocations in a no-enlargement scenario.)
3.4 Final allocations with and without enlargement – trends and results

Having looked at the two programming periods and compared the scenarios in detail, it is now useful to take a step back and look at the broader picture, before coming back to our hypothesis from section 2 in the final conclusions. Figure 13 below shows the final allocations per Member State, programming period and scenario.

In both programming periods, we see a significant number of MS that would receive the same or similar allocations in both scenarios. This is largely due to the influence of the MS macroeconomic conditions which outweigh the statistical effect of the enlargement, which is constrained by the Berlin Formula.

Looking only at the 2035-2041 period for example, where the statistical effect of enlargement is more pronounced, 15 MS will receive the exact same allocations whether enlargement happens or not, while 12 countries would see their allocations reduced in an enlargement scenario. Those reductions, though, vary significantly between -1% and -31%. The impact of the statistical effect can therefore be considered asymmetrical. In particular, the cumulative impact of already reduced allocations in the first round of enlargement, leading to reduced minimum or maximum allocations in the second round of enlargement, needs to be considered.
Figure 13: Evolution of allocations by programming period
One interesting impact of the statistical effect of enlargement is that four present MS would receive higher allocations in the 2035-2041 PP compared to the previous PP even with enlargement. A further four MS would have received higher allocations in the 2035-2041 period compared to the previous, but due to enlargement they will not, or less so than in the no-enlargement scenario.

**Lost in enlargement – is the CP budget ‘capped away’?**

Even though the Berlin Formula seems to be able to cope, in its current form, for the most part with the statistical effect of low-GDP countries joining, the fact that this will still result an overall decrease in the CP budget should be looked at. In particular, the fact that in both enlargement rounds, the pre-final allocation (i.e. after only applying GDP caps) is higher in the no-enlargement scenario than in the enlargement scenario.

This interesting difference can be explained by the fact that funding that would have been allocated to formerly less developed and transition regions (in the absence of enlargement) is now part of the theoretical (pre-GDP cap) allocation of the new MS. But as those are capped, the additional funding is practically ‘lost’ while other MS allocations have been reduced by the statistical effect. One question to be asked here is whether, if a significant part of the budget be ‘lost’ to capping in poorer MS and the statistical effects, this amount should not be redistributed.

**A soft crash landing for Cohesion Policy?**

Overall, we can assume that the minima/maxima allocations will play an important role in safeguarding ‘old’ MS allocations and reducing stress on the EU budget, but also will lead to more distortions in the per-capita allocations. This is not only an issue in the case of enlargement, though, but also needs to be considered if no enlargement takes place given the macroeconomic changes ahead.

Having analysed the impact of enlargement on the budget as a whole and the MS allocations, it is now relevant to come back to our initial hypotheses and compare them to the findings.

### 3.5 Testing our hypotheses

Based on the analysis and calculations presented in Section 2, we can now address our initial hypotheses. It’s important to note that these calculations are predicated on a business-as-usual economic scenario, which could be subject to change due to geopolitical or macroeconomic shifts. Nevertheless, the results provide a potential impact range of enlargement on Cohesion Policy and highlight possible future weaknesses in the fund allocation.

**Hypothesis 1 - The reduced average EU GDP/capita (due to the lower GDP/capita in the new MS) will make many regions and countries move up by at least one category, leading to a loss of CP funding compared to a non-enlargement scenario.**

The first part of this hypothesis is indeed valid. Regardless of the timing or manner of the enlargement process, the average EU GDP per capita will be affected, leading to a series of statistical effects in the Berlin Formula. The most significant of these are the change in regional categories and the relative

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29 An example: Ukraine alone would have an uncapped allocation of around €135 billion for five years. After capping, this is reduced to €30 billion. €13.5 billion of the uncapped allocation are Ukraine’s share of the Cohesion Fund, a share that is even higher in relation to its population and GDP/capita compared to less prosperous MS (due to the prosperity adjustment). This money is practically lost to the Cohesion Fund.
change in national prosperity, which in turn affects the country coefficients. To a lesser extent, it will also impact the caps and safety nets at the Member State level.

Regarding the second part of the hypothesis, on the other hand, it becomes clear that this will depend very much on which countries will join, at which moment in time and what their growth trajectory until then will look like. Following the likely enlargement scenario, the average EU GDP per capita will decline by around 7.4% should all candidate countries enter simultaneously. The table below shows from which candidate countries those 7.4% are coming.

<table>
<thead>
<tr>
<th>Candidate country</th>
<th>Decline of the average EU GDP/capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montenegro</td>
<td>0.1%</td>
</tr>
<tr>
<td>North Macedonia</td>
<td>0.3%</td>
</tr>
<tr>
<td>Albania</td>
<td>0.4%</td>
</tr>
<tr>
<td>Serbia</td>
<td>0.8%</td>
</tr>
<tr>
<td>BiH</td>
<td>0.5%</td>
</tr>
<tr>
<td>Moldova</td>
<td>0.3%</td>
</tr>
<tr>
<td>Georgia</td>
<td>0.3%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Table 6: Reduction in average EU GDP/capita (in PPS) by new Member State

We can see clearly that Ukraine alone could account for 64% of the total average GDP/capita reduction due to enlargement. Distant second is Serbia with 11%, with Montenegro accounting for around 1% of the total reduction. The other candidate countries will do so between 4% and 7%. Those percentages will of course fluctuate and are only estimates, but the weight of the different countries is clear.

The Western Balkan enlargement will therefore be, as we have seen also in section 3.2, barely noticeable for most current EU regions, with intra-EU macroeconomic conditions having a much bigger influence than a potential enlargement. Ukraine on the other hand will lead to significant statistical effects for the current EU regions that need to be taken into account.

This does not mean that the allocation criteria or formula needs to be drastically changed. The statistical effect can also be corrected in the future Common Provisions Regulation. Annex XXVI, paragraphs 14 to 16 already make specific provisions for regions changing categories between programming periods. In the event of enlargement, those could be extended to regions affected by the statistical effect of enlargement.

Overall, and as we will see also in reply to hypothesis 3, the calculations made at regional level might in the end be more important for the repartition of resources between categories of regions at national level than for the calculation of the total national share. This would be the case should no modifications to the minima and maxima in the Berlin Formula be undertaken to allow for more flexibility between programming periods, unrelated whether enlargement happens or not.

Hypothesis 2 - The GDP caps will help contain the amount of CP funding going to the new MS.

There are two answers to this hypothesis. The simple answer is yes, and the figures show it very clearly. Without any GDP caps, the new Member States would receive 43% of the total 2035-2041 CP budget, which would also inflate to €532 billion. Ukraine alone would account for €151 billion over €20 billion

a year compared to approximately €5 billion for the initial period\textsuperscript{31}. Such an uncapped amount would represent more than half of its projected real GDP. A similar situation would present itself in Albania and Bosnia and Herzegovina, while in the other new MS (except Montenegro and Georgia) the allocations would represent around 1/3 of the real GDP. These amounts would not be reasonably absorbable by any economy.

The more differentiated answer is that GDP caps are a two-edged sword and need to be well-designed and proportionate in order not to cause significant distortions in per capita allocations. While this is not per se a problem, it is worth reflecting on when considering for example the Cohesion Fund (CF)\textsuperscript{32} allocations. Due to the GDP caps, none of the new MS will be able to ‘access’ their total theoretical CF allocations. But as the new MS are also taken into account for the calculation of the total CF allocations, and in particular the GDP/capita average for the prosperity adjustment, this means that their inclusion will further lower the allocations of the present member states benefiting from the CF.

Another aspect that needs to be considered, although this is more a matter of foresight, is that as the GDPs of the new MS will converge towards the EU average, their allocations will likely rise over several programming periods. Section 3.2 has clearly demonstrated that for less prosperous Member States, allocations can actually grow as their GDP rises at least until they hit the 55% mark\textsuperscript{33}, where the GDP cap starts to decline limiting further the level of transfers. Particularly in cases of countries like the current enlargement candidates, it is likely that they will receive, in the first few programming periods, growing allocations\textsuperscript{34}. It is nevertheless also important to highlight that the increases between programming period are limited and thus under control.

While for smaller economies, this is at EU level likely offset by ‘old’ EU MS receiving lower allocations, the case of Ukraine is particular due to its size. The Ukrainian GDP/capita in PPS needs to grow by 28% to start lowering the GDP cap, and by 90% to change country coefficient. Assuming that the Ukrainian economy continuous growing at twice the EU average growth rate, it will take Ukraine around 27 years after EU accession to change country coefficient, and 11 years until the GDP cap starts declining. It is therefore likely that the post-2041 CP yearly allocations to Ukraine will be higher compared to 2035-2041, which could lead to a needed increase in the overall CP budget\textsuperscript{35} depending on macroeconomic conditions. This might be offset by larger economies in Central and Eastern Europe converging towards the EU average, but calculations so far out would be guesswork at best.

\textsuperscript{31} For a comparison, the average yearly allocation for Poland in approximately €12 billion for 2021-27.

\textsuperscript{32} The Cohesion Fund is the Fund to member states with a GDP per capita under 90% of the EU average, not to confuse with Cohesion Policy.

\textsuperscript{33} The GDP cap decreases by linear interpolation between 55% and 68% EU average GDP/capita, after which it remains again stable at 1,5%.

\textsuperscript{34} To note here that the maximum allocation per country is 107% of the previous allocation. Assuming a compound growth rate of more than 1%, which is likely, GDP growth will outpace allocation growth in the medium term.

\textsuperscript{35} Compared to the first CP budget involving Ukraine. As the 2035-2041 budget would be almost €25 billion lower than the 2021-2027 budget, and the additional cost of two more years membership for Ukraine, Moldova and Georgia would be around €15-20 billion depending on GDP growth, it is unlikely that the first CP budget involving them for 7 years would exceed the 2021-2027 budget.
While over time, Cohesion Policy may need to grow to accommodate Ukraine’s size in the period post 2041, there is no particular risk for the Cohesion Policy automatically expanding. What is more important is how to make Cohesion Policy better aligned to the EU’s pressing needs.

**Hypothesis 3 - The budget for CP will need to increase significantly in an enlargement scenario if the present formula of allocation remains unchanged**

We have seen that the Cohesion Policy budget won’t need to increase until at least 2041 if we stick to the current formula. Even without enlargement, the budget will significantly decrease, largely due to the minimum and maximum allocations.

These allocations allow flexibility in calculations and soften the impact of economic changes on regional and national allocations and the budget. However, their impact isn’t always clear-cut. They mainly work as a safety net to avoid big reductions in allocations when GDP per capita grows. But they lack flexibility when the average GDP per capita falls compared to the EU average and more funding is needed.

Upward flexibility is limited. There’s only a maximum 7% increase in allocations per programming period for countries with GDP per capita under 110% of the EU average. This is less than a third of the value of the 24% maximum fall in allocations. So, an increase in GDP may lead to a loss of up to 24% of the funding, but a fall in GDP will allow for a maximum increase of 7%.

For countries that rise above 110% of the EU average GDP, there’s an automatic cut to 90% of the previous allocation (and 80% if above 120%), regardless of developments in the regions inside the country. This is why the budget will reduce without enlargement and cope well with the additional financial needs of enlargement.

However, the focus on the maximum and minimum allocations is fixed at the national level, which may not align with regional developments. The system isn’t adapted to deal with backsliding at the regional level in more developed countries, or for entire high and medium prosperity countries backsliding compared to the EU average.

Two main questions arise: how can we ensure the Berlin Formula has enough flexibility in country allocations, and how can it account for increased economic polarisation, allocate enough funding to regressing regions in more developed countries, and support entire countries which are backsliding, without blowing up the budget?

The final answer to this third hypothesis will therefore for now need to remain open. Yes, enlargement will have an impact on the allocations, but it is not the main cause of concern. Rather, it’s impact is symptomatic of the issues described above. An equilibrium between the protection of the CP budget from outsized increases, the need to protect recipients from too harsh changes in allocations between programming periods, and the fair allocation of funding to the places that need it the most, needs to be found.

### 3.6 Final remarks

This paper does not predict the future of Cohesion Policy over the next 20 years. Instead, it presents the outcomes of the current complex system of support allocation within an expanded EU, considering specific economic and population trends. The results suggest that enlargement itself does not pose a budgetary risk under the current allocation system. This is because the formula is designed to prevent drastic redistributions and limit the support provided to new members.
However, a self-constraining budget mechanism may alleviate fears of a budgetary crisis due to enlargement, particularly for Cohesion Policy. But this frugality may disconnect the policy from the actual needs on the ground.

The results also provide several important insights for existing members. Firstly, we should focus more on trends within current member states and worry less about the additional financial costs of enlargement. Some EU regions are declining due to a history of poor performance. The question is, can we reverse this decline and if so, how? This reflects the concerns raised in the high-level group report on the future of Cohesion.

It’s also crucial to question the suitability of the current allocation formula, given the numerous asymmetric shocks that certain regions may face. These could be due to energy transition, climate change adaptation, permanent location-based handicaps, migration, or border conflicts. We should not stick to the current allocation methodology solely based on budgetary concerns, but adapt it to meet emerging challenges.

Historically, Cohesion Policy has demonstrated its adaptability to enlargement and its ability to elevate less prosperous regions towards the EU average. There’s no reason why this can’t be achieved again, even with changes in Europe’s macroeconomic situation and the EU’s position in global value chains. In fact, Cohesion Policy is now more vital than ever to ensure that all regions of the EU can adapt to changing environmental and economic circumstances and reach their potential while offering a new future for new members. In fact, Cohesion policy is a geopolitical response to the numerous destabilising factors affecting the European Union.

To do so in an effective manner, the budgetary allocation mechanism needs to be aligned with the challenges facing the regions and not only to the need to contain costs. There is a need to review the methodology reflecting the challenges ahead.

The Conference of Peripheral Maritime Regions (CPMR) represents more than 150 regional authorities from 24 countries across Europe and beyond. Organised in Geographical Commissions, the CPMR works to ensure that a balanced territorial development is at the heart of the European Union and its policies.