Six lessons from the EU for the future of aid

November 2025

Does Europe's experience offer insights for a more effective global financing system?



Jonathan Glennie
& Gail Hurley

GLOBAL COOPERATION INSTITUTE

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The Global Cooperation Institute is a thinktank based in Bogotá, Colombia, which works with partners to craft modern approaches to global cooperation in the 21st century, combining the best evidence with visionary theory to build compelling narratives and practical solutions. We help build groundbreaking new ideas, including Global Public Investment (GPI) and Circular Cooperation, based on mutual interest and ensuring human dignity and planetary sustainability. Our work is guided by three core values: the humility to learn, the courage to challenge, and the hope to inspire others.

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About the authors

Jonathan Glennie is founder and Executive Director of the Global Cooperation Institute. He is a recognised expert and campaigner on international cooperation in a new era, advising governments and international organisations on strategy and policy. He has held senior positions in several international organisations, including Ipsos, Save the Children, ODI and Christian Aid. He helped found Global Nation, the Global Public Investment Network and the Guardian‘s Global Development website, where he was a regular columnist. He is author of *The Future of Aid: Global Public Investment* (Routledge, 2021), *Aid, growth & poverty*, with Andy Sumner (Palgrave, 2016) and *The trouble with aid: Why less could mean more for Africa* (Zed, 2008).

Gail Hurley is an independent senior advisor specialising in development finance and innovative financing models, particularly for the blue economy and in the Global South. She works with NGOs, foundations, think tanks and international organisations to mobilise more finance for the SDGs, with experience across Africa, the Caribbean and the Pacific. Previously, she was Director of Advisory at Finance Earth and, before that, spent nearly a decade with UNDP in New York working on financing strategies and the Tax Inspectors Without Borders initiative. She has also held roles with Development Initiatives, WFP, the Gates Foundation and EURODAD.

Abstract

The EU Structural and Investment Funds are a critical part of the European Union's operating system. As the future of international aid and cooperation is ever more under the spotlight in a changing geopolitical context, this paper investigates what the international development cooperation system can learn from these groundbreaking funds. Unlike traditional Official Development Assistance (ODA), which is based on income thresholds and a donor–recipient dynamic, the EU Funds are structured around principles of convergence, mutual benefit, and shared governance. By providing non-repayable grants even to high-income countries, and focusing on regional inequality and strategic investment, the EU model challenges the dominant aid paradigm. The paper identifies six key lessons from the EU Funds (around objectives, eligibility, governance, scope, modalities and geographic approach) and explores how these might inform the evolution of Global Public Investment (GPI), a new approach which shifts from outdated aid frameworks toward a model of international public finance that is cooperative, inclusive, and fit for the global challenges of the 21st century.

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Most importantly, we extend our thanks to the many colleagues and partners worldwide who are working to renew international public finance and build forms of cooperation grounded in mutual benefit, shared investment and long-term solidarity. Their work continues to inspire the agenda proposed here.

Executive summary

As the global development finance system grapples with rising geopolitical tensions, new economic pressures, and the imperative of climate transition, there is widespread recognition that the traditional aid model may no longer be fit for purpose. This paper makes a case that the EU Structural Funds, for all their imperfections, may offer a strong real-world prototype for what a more just, sustainable, and effective system of international public finance for development could look like.

The EU Structural Funds are a critical part of the European Union's operating system. They have evolved over the decades, but their core purpose remains to enable a more cohesive and prosperous region.

Through a detailed examination of the design, governance, and thematic priorities of these funds, this paper raises fundamental questions about the dominant international aid model, especially the conventional dichotomies between donor and recipient, grants versus loans, and graduation from aid eligibility.

We conclude that the EU Structural Funds provide lessons for an evolution of the international system of public finance for sustainable development, in the direction of what is now being described as global public investment.

The paper is structured around six core lessons drawn from the EU Structural Funds, each shedding light on a different dimension, with implications for the global aid architecture. These lessons are supplemented with in-depth case studies, rich empirical data, and references to key policy documents and academic studies.

Lesson 1: Strategic Mutuality
The first lesson contrasts the prevailing aid narrative of charity with the EU's emphasis on mutual interest and collective benefit. The EU Structural Funds operate on the principle that convergence benefits all members, including net contributors, through enhanced trade, growth, and political legitimacy. Mutual benefit is seen not only as a political tool to justify redistribution but as a foundational design principle. The lesson here is that reframing international cooperation as a shared global investment in common global challenges can build a more durable and democratic form of development finance. We note similarities with the narrative associated with South-South Cooperation, where mutual benefit and horizontal partnerships are emphasised.

Lesson 2: Support for countries at relatively high income levels
The second lesson explores the EU's approach to "graduation". Under the current international aid system, income-level determines eligibility for concessional finance. However, EU Structural Funds support countries across the income spectrum – including higher-income member states – based on relative need and shared development objectives. This has allowed wealthier but lagging regions in countries like Spain, Ireland, and Poland to receive sustained support for infrastructure, employment, and innovation. The paper critiques the rigid graduation logic of the current aid system and suggests that global finance must become more flexible, taking into account the multidimensionality of development challenges.

Lesson 3: Stakeholders, not beneficiaries

This lesson focuses on the governance structures of the EU Structural Funds, which are participatory and inclusive. All countries are stakeholders – paying in, receiving support, and jointly deciding on priorities and rules. The model promotes ownership, subsidiarity, and long-term strategic planning through the Multiannual Financial Framework. It contrasts with the highly centralised, donor-driven models in international aid, where conditionalities are often externally imposed. We document positive outcomes from ex-ante conditions, including policy reforms, administrative strengthening, and better alignment with EU-wide objectives. A key insight is that governance structures based on shared membership rather than donor control may improve accountability and effectiveness.

Lesson 4: Beyond poverty reduction

This fourth lesson identifies the difference in objectives between EU Structural Funds and traditional Official Development Assistance (ODA). While ODA has historically focused on poverty reduction as a central objective, EU Structural Funds are driven by a broader objective of economic and social convergence across regions. This shift from an absolute to a relative conception of need has allowed the EU to invest in a broader set of priorities, including innovation, infrastructure, culture, and social inclusion. In this new era, the international financing system could move beyond a narrow poverty-reduction focus and embrace more systemic goals and long-term convergence in living standards.

Lesson 5: Grants, not loans

The EU's use of non-repayable grants as the biggest financing modality within its Structural Funds is a striking contrast with the prevailing global trend toward loan financing. The paper argues that grants remain valuable even in wealthier contexts, especially for addressing externalities, regional disparities, and long-term resilient infrastructure. It highlights the unique role grants play in promoting equity, incentivising local investments, enabling innovation, and delivering spillover benefits. In contrast, the international aid system is increasingly promoting loans and blended finance instruments, often prematurely and with limited evidence that the approach is working.

Lesson 6: Multi-level and territorial governance

The final lesson underscores the territorial nature of EU Structural Fund spending. The EU Structural Funds are not simply intergovernmental transfers but are deeply embedded in a multi-level governance system that includes regions, municipalities, and local business and civil society organisations. The paper provides multiple examples – from London and Cornwall to Poland's Integrated Territorial Investments – to show how the EU Structural Funds have empowered local actors and addressed place-based inequalities. This contrasts with international aid, much of which is mediated via a complex web of international development partners, including international NGOs, UN bodies, and vertical funds. Given that many development challenges are local, the international aid system should look to invest more directly in local actors and systems. The paper notes growing interest in territorial (rather than just national) approaches to development, including by UNDP and OECD, but suggests that current funding instruments remain poorly adapted to these ends.

The way forward

Our study arrives at a pivotal moment. It acknowledges the differences between the EU – an integrated political and (to a large extent) monetary union – and the fragmented landscape of global development institutions and the mix of global development situations. Nonetheless, it argues that the EU Structural Funds offer useful conceptual and operational tools, including pooled funds, shared governance, outcome-based disbursement, and strategic conditionalities.

We propose a set of next steps, including:

- Further comparative research between EU Funds and international aid models
- Pilot initiatives to apply EU-style financing approaches in other regional blocs (e.g. the African Union, ASEAN)
- Strengthening the narrative around mutual benefit and global public investment for the common good
- Exploring options for membership-based global funds where all countries pay in and receive support based on agreed priorities
- Enhancing sub-national financing mechanisms within global development finance, especially for cities and regions.

Introduction

The future of international public finance is being reimagined. As global challenges become more interconnected – from climate instability and rising debt burdens to post-pandemic recovery and escalating geopolitical tensions – the debate over how we fund sustainable development and global challenges[1] has reached a new level of urgency. How much international public finance is needed? Who should contribute? Who should benefit? How should decisions be made? And how should the traditional "aid" system evolve?

In recent years, that traditional aid paradigm has come under mounting pressure. Once seen as a cornerstone of international solidarity, aid has been increasingly challenged by economic shocks, rising populism, and shifting national interests. Efforts to scale back major donor institutions – including the high profile hollowing out of the world's largest bilateral donor agency – have contributed to a growing consensus that the existing aid system is no longer fit for purpose. Meanwhile, the proliferation of new actors, funds and crises is creating an increasingly fragmented global financial landscape.

And yet, one model of large-scale, cross-border concessional financing continues to operate – largely unnoticed in these debates: the European Union's Structural and Investment Funds. (In this paper, we use the term "EU Funds" as shorthand to refer to all significant EU-managed cross-border public financing mechanisms.)

These EU Funds represent one of the world's most ambitious and sustained uses of international public finance. Channelled across borders, often as grants, and with a focus on various objectives, including long-term convergence, emergency response, environmental protection, and the advancement of science and innovation, they can inform other forms of international cooperation, including Official Development Assistance (ODA), South-South Cooperation, and emerging proposals for financing global public goods.

Yet despite this relevance, their lessons are seldom drawn upon in global development policy or finance reform circles. This paper aims to change that. It explores the design, rationale, evolution and impact of the EU Structural and Investment Funds and distils key lessons relevant for debates on reimagining the broader international public finance system. In doing so, it offers insights not only for traditional aid reform, but for emerging ideas such as Global Public Investment (GPI) – an approach that proposes a permanent, cooperative and inclusive model of international public finance grounded in shared responsibility, mutual benefit, and global solidarity (Glennie 2025; GPI Network 2023).

This paper offers a broad, exploratory analysis, synthesizing existing documentation, research and policy literature from the EU, along with complementary analysis from broader global analyses. Its goal is to open new lines of inquiry and bridge two largely disconnected policy communities: those working on internal EU cohesion and those shaping the future of global finance.

[1] We tend to avoid the term Global Public Goods because it is a limited technical term and because it provokes debate in some quarters. We will use phrases like global common objectives to cover this type of objective.

The paper is structured as follows:

- The rest of this section sets out the evolving global context for concessional international public finance, including shifts in power, need and purpose.
- There follows an overview of the EU Structural and Investment Funds – their history, logic and evolution.
- Then come the six lessons we draw for global development finance, bringing out core themes such as objectives, eligibility, governance, scope, modalities and geographic approach.
- The conclusion considers whether the EU Funds can serve as a prototype or inspiration for a new generation of global public investment and identifies priorities for future research, experimentation and advocacy.

Concessional public finance in a changing global context

The world has entered a phase of sustained turbulence. Multiple, overlapping crises – geopolitical, ecological, social, and economic – have exposed the limits of our current systems of global cooperation and finance. Armed conflicts, from Ukraine to Gaza to Sudan, have triggered widespread humanitarian need and forced mass displacement. Rising authoritarianism and democratic backsliding in some countries are reshaping the international order. Meanwhile, climate shocks are becoming more frequent and severe, testing the resilience of both national systems and multilateral institutions.

The European Union itself is navigating a complex internal landscape: the war in Ukraine has reshuffled political priorities, accelerated energy transitions, and reignited debates about enlargement and solidarity. Within its borders, the EU has continued to deploy substantial cross-border concessional finance through its various instruments – a quiet but powerful example of how international public finance can be structured to support stability and convergence even amid crisis.

Globally, the COVID-19 pandemic remains a watershed moment. It marked the largest setback in international development in a generation. Hundreds of millions of jobs were lost, while the economic shock plunged tens of millions more people below the international poverty line. School closures, which at one point affected children in 90% of countries, continue to cast a long shadow – especially for the millions of girls UNESCO predicts may never return to education.[2]

COVID also revealed deep structural inequalities. In a world of lockdowns and digital learning, the digital divide became a major driver of exclusion. And with immunisation becoming a passport out of lockdown, vaccine apartheid underscored the fragility of global solidarity. The pandemic struck at a moment when poverty reduction had already slowed, social protection systems remained incomplete, and planetary boundaries – from climate thresholds to biodiversity loss – were being dangerously breached.

Beyond its material impacts, the pandemic also triggered an intellectual and political reckoning. It shattered complacency around linear progress and exposed new vulnerabilities – even in high-income countries. It also accelerated political calls for change, including the growing movement to "decolonise development" and shift power away from historic centres of control in London,

[2] UNESCO (2021) 'Girls' education and COVID-19: New factsheet shows 11 million girls may not return to school', UNESCO. Available at: https://en.unesco.org/news/girls-education-and-covid-19-new-factsheet-shows-11-million-girls-may-not-return-school Accessed 9 November 2025.

Paris, Washington and New York.

In all this upheaval, the future of concessional international public finance (IPF) remains uncertain.[3] The dominant theory behind ODA has long held that it should decline as countries "graduate" to middle-income status then end altogether as countries reach high-income status. But with almost all countries now classed as middle- or high-income – and most of the remaining low-income countries aiming to graduate – this logic implies an eventual end to aid altogether.

Even a quick glance shows the limits of this framing. India, a middle income country since 2007, remains home to over a third of the world's malnourished children.[4] Guatemala has held upper-middle-income (UMIC) status for decades, despite having one of the highest stunting rates globally, affecting nearly half of all children.[5] Antigua and Barbuda, classified as a high-income country, is ineligible for aid altogether even though it is one of the world's most climate vulnerable countries and experiences millions in loss and damage caused by climate change (a problem it did not create).[6] In other words, income status tells us little about the real development challenges countries face – and cannot justify cutting off support.

And when viewed through the lens of the Sustainable Development Goals (SDGs), the idea of graduation becomes even more problematic. Countries like Ghana, with its high-profile "Ghana Beyond Aid" initiative, have rightly sought to reduce external dependency.[7] But moving beyond aid should not mean moving beyond international cooperation. Meeting the SDGs – or responding to planetary crises like climate change – will require far more ambitious and sustained financial collaboration.

Estimates vary, but the scale of the financing gap is staggering. The latest 2024 update from the Stern, Songwe, Bhattacharya team finds that for emerging markets and developing countries (EMDCs) other than China, annual global climate investment needs will be around USD2.4 trillion by 2030.[8] Meanwhile, to achieve the full range of SDGs, UNCTAD has estimated that an additional US$4.2 trillion in additional public and private finance is required annually.[9]

While efforts to raise domestic resources are essential, few countries – especially those dealing with debt distress, climate vulnerability, and demographic pressure – can meet these needs alone. So where will the money come from? Private investment? Philanthropy? Remittances? All will

[3] We use the term International public finance (IPF) to refer to finance raised publicly, either from national public revenue (e.g. income tax) or internationally raised levies (e.g. airline ticket tax), which is spent in another country or on some kind of cross-border project. It may or may not be concessional, and it may or may not support global development.
[4] Global Nutrition Report (2018) '1/3 of world's stunted kids are from India, says report.' Times of India. Available at: https://timesofindia.indiatimes.com/india/1-3-of-worlds-stunted-kids-are-from-india-says-report/articleshow/66873071.cms Accessed: 9 November 2025.
[5] Index Mundi (n.d.) 'Countries ranked by Prevalence of stunting, height for age (% of children under 5)'. Available at: https://www.indexmundi.com/facts/indicators/SH.STA.STNT.ZS/rankings Accessed 9 November 2025.
[6] U.S. Department of State (2025) '2025 Antigua and Barbuda Investment Climate Statement'. Available at: https://www.state.gov/reports/2025-investment-climate-statements/antigua-and-barbuda/ Accessed: 9 November 2025.
[7] Government of Ghana (2019) 'Ghana Beyond Aid Charter and Strategy Document'. Available at: https://www.psrs.gov.gh/publications/ghana-beyond-aid-charter.html Accessed 9 November 2025.
[8] Bhattacharya, A., Songwe, V., Soubeyran, E. & Stern, N. (2024) 'Raising Ambition and Accelerating Delivery of Climate Finance: Independent High-Level Expert Group, Third Report'. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics. Available at: https://www.lse.ac.uk/granthaminstitute/publication/raising-ambition-and-accelerating-delivery-of-climate-finance Accessed 9 November 2025
[9] UNCTAD (2023) 'SDG Investment Trends Monitor, Issue 4'. United Nations Conference on Trade and Development. Available at: https://unctad.org/publication/sdg-investment-trends-monitor-issue-4 Accessed 9 November 2025.

have a role to play. But they cannot substitute for one crucial source: international public finance.

Despite repeated public commitments to meet the 0.7% of GNI target for ODA, many countries have deprioritised aid, most notably the US, but also other OECD member countries. In some cases, this has been the result of political decisions – such as the systematic dismantling of major development institutions under the Trump administration. In others, fiscal tightening and domestic political pressures, including heightened national security pressures, have led to shrinking aid budgets or diversion of funds toward in-donor refugee costs and climate mitigation at home.

As a result, a pervasive assumption now underlies many aid discussions: that ODA is a temporary measure, nearing its end. Far from scaling up, many traditional donors are focused on how to scale down. This is may not just be a budgetary shift – it could reflect for some a deeper philosophical drift away from the idea of permanent global solidarity.

At the same time, counter currents are emerging. The pandemic reignited calls for large-scale global financial cooperation – from vaccine equity to pandemic preparedness to climate finance. Ambitious proposals to channel Special Drawing Rights (SDRs), reform the global financial architecture, and fund global public goods are gaining traction. New voices from the Global South are challenging outdated norms and advancing regional alternatives. Calls for a more inclusive and effective system of international public finance are growing louder.

Finance is not the whole solution to these problems. But it is an essential part of any credible response. And as the case of the EU Funds shows, it is possible to design international public finance systems that are stable, fair, and focused on long-term mutual benefit – not just crisis response or charity.

A gap in the literature

The European Union is arguably the world's most advanced and bureaucratically sophisticated regional grouping. It is the only bloc that negotiates trade agreements collectively, aspires to a shared foreign policy, and operates a large-scale system of cross-border public investment. It has pioneered intra-regional public finance and investment as a mechanism for supporting economic cohesion and convergence, responding to emergencies, supporting research and innovation, as well as several other areas while simultaneously serving as one of the world's largest providers of funds for development cooperation, humanitarian response, and the provision of global public goods.

Yet despite these dual roles, there remains a striking disconnect in the literature. Very little comparative analysis exists between the EU's internal development financing mechanisms – particularly the European Structural and Investment Funds – and its external development cooperation instruments. A lengthy policy document by the European Parliament's Directorate General for External Policies, for instance, discusses EU support to upper-middle-income countries without once referencing the EU's internal financing approaches to countries at similar income levels within the Union (European Parliament, 2016) Among the many documents reviewed for this study on the evolution and impact of EU external assistance (i.e. support for countries outside the EU), only a handful engage seriously with the lessons or structures of the EU Funds. It is as if the two areas – internal and external – are considered entirely separate, despite attempting to tackle similar challenges.

This separation is not only intellectual but also institutional. The architecture, policy frameworks, and narratives around EU cohesion policy and external development cooperation have evolved largely in isolation. And yet, both seek to address spatial inequalities, promote structural transformation, enhance resilience, and build capacity, often through similar tools, including grants, co-financing, policy conditionality, and technical assistance.

There are exceptions:

- Owen and Vercruysse (2014) offer a rare comparative analysis between the EU's *Community-Led Local Development* (CLLD) and the World Bank's *Community-Driven Development* model, drawing parallels in capacity-building, the challenge of evaluating "soft" outcomes, and the importance of coordinating multiple interventions.
- Nyikos (2015) explicitly draws on development literature from the Global South to evaluate EU microfinance policy in Hungary, highlighting access to finance as critical to SME growth and noting both advantages and implementation shortcomings.
- In the introduction to their macroeconomic modelling of the EU Funds, Varga & in't Veld (2010) reference the broader aid literature, including classic debates on absorption, policy context, and aid effectiveness.

More recently, several studies have reinforced the relevance of this comparative approach. A 2024 scoping review of 11 major evaluations of EU cohesion spending found that effective implementation was consistently associated with strong governance, institutional capacity, and long-term planning – echoing decades of research on ODA in low- and middle-income countries (Veneri & Reiss, 2024). A 2023 IMF paper on regional convergence in the EU noted that the macroeconomic impact of EU Funds is not only material but also catalytic, particularly when funding is used to crowd in private investment and align with national strategies (International Monetary Fund, 2023)

Despite these contributions, the vast majority of development policy literature continues to treat these two areas – EU cohesion policy and international aid – as separate worlds. This is a missed opportunity. Whether under the label of "aid," "development finance," or "solidarity funding," these systems share strikingly similar objectives, tools, and tensions. That they continue to evolve in parallel, with little cross-pollination, is a major gap in both research and policymaking.

We believe there is great opportunity for mutual learning. The EU's internal and external funding systems should no longer be seen as disconnected spheres. They should be analysed and, where appropriate, designed in parallel. Comparative research and policy dialogue could strengthen both systems, ensuring that lessons in one context inform innovation in the other.

Even more ambitiously, we propose that aspects of the EU Funds may serve as a prototype for a new generation of international public finance. Principles like mutual contribution and benefit, long-term investment in shared objectives, and a permanent rather than temporary rationale – all align closely with the emerging vision of global public investment (GPI). As a model of cooperative financing across borders, the EU Funds point toward what a more universal, inclusive and equitable global financing architecture could look like.

Lessons from the EU Funds for the future of aid

The European Union's system of regional funds represents the world's most sophisticated and enduring system of cross-border concessional public finance. Built on the principle of shared prosperity and solidarity, it has developed over decades into a complex but coherent system of grants, rules, institutions, and relationships that redistribute funds across borders within a politically diverse and economically unequal union.

In the wake of the global disruptions (summarised above) questions around how to build a new system of international public finance have become more urgent. In this context, Global Public Investment (GPI) has been proposed as a new approach to concessional financing that is universal, fair, and geared towards shared objectives. But how might such a system work in practice?

Box: What is Global Public Investment (GPI)?

Global Public Investment (GPI) is a new approach to international public finance designed for the 21st century. It moves beyond the traditional "aid" model, which treats some countries as donors and others as recipients, toward a system where *all countries contribute, all benefit, and all decide*. GPI recognizes that many of today's greatest challenges—such as climate change, health, inequality, and digital access—are shared and require collective investment rather than one-way charity.

In practice, GPI proposes a permanent, cooperative system of financing that reflects mutual interests and shared responsibilities. It encourages countries at every income level to invest according to their means and to participate equally in decision-making. This creates a sense of joint ownership, accountability, and solidarity that the old aid system often lacked.

GPI is both a **narrative shift** and a **practical framework** for reforming global public finance. It offers a way to mobilize predictable funding for global public goods while strengthening trust between nations. By embedding principles of equity, inclusion, and reciprocity, GPI aims to make international cooperation more legitimate, effective, and sustainable—reframing development finance as a shared global investment in our common future.

This paper suggests that the EU Funds may offer hints at what GPI could become. They offer lessons not just in technical design or impact evaluation, but also in governance, narrative, and political sustainability. They have helped to reduce disparities across Europe, supported convergence among very different economies, and proved remarkably durable – even popular – across multiple budget cycles and political eras. The range of issues addressed by various EU Funds illustrates the important role of international public finance across multiple thematic areas.

The *six lessons* we present in this report distil some of the key features of the EU Funds that may be relevant for the future of global cooperation, especially as the global community grapples with the need for long-term, cross-border financing that works for all. Each lesson draws not only from EU practice but from extensive literature – academic, policy, and evaluation-based – and explores potential adaptations for international public finance beyond Europe.

Overview of the EU Funds

Origins: How did the EU Funds begin?

In the lead up to the establishment of the first EU Funds, a group of academics led by Donald MacDougall was tasked with studying how public finance worked in eight countries (5 federal and 3 unitary) to elucidate lessons as to how it could work in the European Community (EC) of 9 countries (at the time). While there are obvious difficulties bringing learning from individual nation states to a community of nation states, there were also striking similarities.

Interestingly, inequalities within the countries of the then EC were similar in scale to the inequalities between the regions of the countries studied, according to the MacDougall Report: *"Although the statistical problems are considerable, it can be said with a fair degree of certainty that per capita incomes are in general at least as unequal between the Nine members of the Community (and between the 72 regions we have distinguished in the Community) as they are on average between the various regions of the countries we have studied, even before allowing for the equalising effects of public expenditure and taxation."* (MacDougall, D. et al, 1977)

But whereas taxation and expenditure reduced regional inequalities by about 40% in the eight countries studied (where poorer regions might rely on inflows for up to 30% of their regional income) in the EC it was only about 1%. Furthermore, in moments of economic crisis, regional losses were offset in the countries studied, *"through lower payments of taxes and insurance contributions to the centre, and higher receipts of unemployment and other benefits"* – no such possibilities existed in the EC at the time. Importantly, this redistribution in the countries studied was effectively "invisible" in the sense that richer individuals simply pay more tax and receive fewer benefits, and vice versa.

The MacDougall team took this as a starting point to propose a radical (at the time) role for international public financing. Community action (their term for the proposed transfer of public money across borders) was required, *"in the areas of structural and cyclical policies (regional, manpower, unemployment) to ensure so far as possible that the benefits of closer integration are seen to accrue to all, that there is growing convergence – or at least not widening divergence – in the economic performance and fortunes of member states. Those measures should make a start in reducing the inequalities in per capita incomes between the various parts of the area."*

They argued that, *"It is in the area of structural, cyclical, employment and regional policies that we see the main need for substantial expenditure at Community level. The purpose of these measures is mainly to help to reduce inter-regional differences in capital endowment and productivity."*

The report set out a menu of six possibilities for Community financial support:

1. Regional policy aids (e.g. investment incentives, public infrastructure, urban redevelopment)
2. Labour market policies (e.g. vocational training)
3. A Community Unemployment Fund, which they proposed as much for its political attractiveness i.e. bringing citizens into direct contact with the Community, as for its economic effects
4. A limited budget equalisation scheme *"for extremely weak member states"* to *"ensure that*

their welfare and public service standards are not too far below those of the main body of the Community"

5. A system of cyclical grants to local or regional governments
6. A "conjunctural convergence facility" aimed at preventing acute cyclical problems for weak member states

Interestingly, the report does not propose significant social and welfare spending at the community-level – that was to remain national.

The 1977 MacDougall report identified three main types of grant used in the eight countries studied:

- General purpose grants for redressing vertical fiscal imbalance
- General purpose grants for fiscal equalisation purposes
- Specific purpose grants for the pursuit of particular objectives.

According to the report, the federal/national level of government is able to use all three types to pursue its proper objectives without undermining the autonomy of lower levels of government. To use the report's wording, *"financial aids and incentives are provided to lower level governments in such a way as to induce and enable, but not enforce, attainment of federal objectives."*

Evolution: What are the EU Funds today?

The European Structural and Investment Funds support a range of objectives, and since their inception, these funds have evolved substantially, giving rise to a complex array of financing instruments targeting diverse goals – from rural revitalisation to green energy transitions and supporting sports and culture.

One of the most important objectives for the EU Funds remains economic convergence across the European Union. Unlike development assistance which has a major focus on poverty reduction, the EU Funds are concerned with relative development gaps, aiming to reduce disparities in income, infrastructure, employment, and innovation between and within countries. The five major EU Funds continue to redistribute hundreds of billions of euros across the Union every seven-year programming cycle. For the 2021–2027 period, the three largest funds – the European Regional Development Fund (ERDF), European Social Fund Plus (ESF+), and the Cohesion Fund (CF) – are allocated €372.6 billion in total (European Commission, 2021). Two additional funds – the European Agricultural Fund for Rural Development (EAFRD) and the newly renamed European Maritime, Fisheries and Aquaculture Fund (EMFAF) (formerly EMFF) – contribute a further €95.5 billion and €6.1 billion, respectively (European Commission, 2021).

The European Structural and Investment Funds

- European Regional Development Fund (ERDF): Promotes balanced development across the EU's regions. Between 65% and 85% of ERDF funding is concentrated on smart growth (innovation, digitalisation) and the green economy (climate adaptation, energy transition), but it also covers infrastructure, social development, and urban renewal (UITP, 2024).
- European Social Fund Plus (ESF+): Replacing the previous ESF, this fund supports employment, social inclusion, education and training, labour mobility, and skills development – investing in Europe's human capital, particularly youth and vulnerable groups (European

Commission, 2021).

- Cohesion Fund (CF): Supports environmental and transport infrastructure in countries with a gross national income (GNI) per inhabitant below 90% of the EU average, primarily targeting Eastern and Southern European member states (European Commission, 2021).
- European Agricultural Fund for Rural Development (EAFRD): Finances the long-term development of rural areas, including sustainable farming, agri-environmental practices, and rural diversification (European Commission, 2021).
- European Maritime, Fisheries and Aquaculture Fund (EMFAF): Formerly the EMFF, this fund helps fishing communities transition to sustainable practices, strengthens the blue economy, and supports biodiversity conservation in marine and coastal areas (European Commission, 2021).

Other EU-managed public funds

Beyond the five main European Structural and Investment Funds, the EU manages a range of other funds that serve specific policy areas:

- EU Solidarity Fund (EUSF): Since 2002, this fund has disbursed over €5 billion in emergency assistance to 24 countries following more than 80 natural disasters, including earthquakes, floods, droughts, and wildfires (European Commission, 2022).
- Asylum, Migration and Integration Fund (AMIF): With an expanded budget of €9.88 billion for 2021–2027, AMIF promotes a common EU approach to asylum, integration, and migration management, including emergency relocation and capacity-building in frontline states (European Commission, 2023).
- Internal Security Fund (ISF): With €1.9 billion for 2021–2027, the ISF supports law enforcement cooperation, border management, and the implementation of the EU's internal security strategy (European Commission, 2021).
- Just Transition Fund (JTF): Introduced as part of the European Green Deal, the JTF supports regions most affected by the transition to climate neutrality, with an allocation of €19.3 billion aimed at social and economic diversification, job creation, and support to carbon-intensive sectors (European Commission, 2023).
- Horizon Europe is the EU's key funding programme for research and innovation. The indicative funding amount for Horizon Europe for the period 2021-2027 is €93.5 billion.

Together, these instruments form the backbone of the EU's internal development finance system, representing over 30% of the total EU budget for 2021–2027 (European Parliament, 2021). They reflect a comprehensive and institutionalised approach to international public finance within a regional bloc, arguably the most advanced example of cross-border, concessional financing in the world today.

Impact: Have they worked?

So is this spending effective? When it comes to the impact and effectiveness of the EU Funds, there are strong links with the aid debate in terms of both methodology and conclusions. As with Official Development Assistance (ODA), the literature is divided between optimists, sceptics, and contextualists. It is not possible for the present paper to carry out a systematic review of the literature; instead we report some of the salient analysis from our research, supplemented with recent contributions.

It is worth noting a priori that the EU Funds continue to receive large budgetary allocations, suggesting they are broadly viewed as valuable tools. And indeed, much of the literature is positive:

- Ferrer and Katarivas (2014) estimate that, despite its modest size, the impact of Cohesion Policy (€355 billion for 2007–2013) has been *"in the range of four times the EU contribution, or €1.4 trillion."* They conclude that the EU budget is *"a truly important force"* and *"an influential facilitator of integration,"* estimating a return of about 2% of EU GDP from spending equivalent to roughly 0.5% of GDP.
- Maynou et al. (2014), analysing the period 1990–2010, find that the Funds *"positively contributed to the growth of the gross domestic product per inhabitant (GDPPC) of receiving regions."*
- Cappelen et al. (2003) similarly find a *"significant and positive impact"* of EU regional support on growth in Europe's regions, with better results in *"more developed environments,"* pointing to the critical role of good governance and domestic policy context.

More recent evaluations reinforce this broadly positive picture:

- A 2024 synthesis by the European Commission's Joint Research Centre confirms that Cohesion Policy has supported regional convergence and economic development in lagging areas, particularly when implemented through robust institutional frameworks (JRC, 2024).
- A 2023 study published in Regional Studies finds evidence that Cohesion Policy reduces disparities both between and within member states (Bachtler et al., 2023).
- A 2022 article in Economic Modelling shows that EU investment in energy, R&D, and transport infrastructure leads to measurable long-term growth, including spatial spillovers to neighbouring regions (Poghosyan & Priewe, 2022).

However, not all findings are positive. In fact, the mixed picture mirrors that of the ODA literature, with sceptics pointing to limited, uneven, or even counterproductive impacts:

- Rodríguez-Pose and Fratesi (2004) find no significant returns on infrastructure and business support, with short-term gains in agriculture diminishing quickly. Only *"investment in education and human capital – which only represents about one-eighth of the total commitments – has medium-term positive and significant returns."*
- Mohl and Hagen (2010) report that while Objective 1 payments (targeting poorer regions) may promote growth, the combined Objectives 1, 2, and 3 did not show significant overall impact on growth rates.
- Looking specifically at Greece, Liargovas and Repousis (2015) find that Structural Funds may increase consumption and distort incentives, with effects that mirror common critiques of ODA, including rent-seeking and limited additive impact on domestic savings or growth.

More recent critical perspectives include:

- A 2020 panel-data spatial analysis published in Intereconomics suggests that impacts vary widely across regions and are not always positive – with spatial dependencies influencing outcomes (Kengyel, 2020).
- A 2023 paper in the Journal of the European Economic Association finds that while ERDF spending generates positive short-term GDP gains, most effects fade within three years, raising questions about sustainability (Becker et al., 2023).
- A 2024 policy study by the ZEW Institute highlights weak methodological standards and suggests that many Cohesion Policy evaluations lack credibility due to insufficient

independence and data transparency (ZEW, 2024).

In addition, some analysts continue to argue that the benefits of EU membership – such as access to the Single Market, labour mobility, and inward investment – may be more consequential for growth than the Funds themselves, especially in Member States at the lower end of the income scale.

A major comparative contribution remains Varga and in't Veld's (2010) comprehensive review and modelling study, which draws heavily on the aid literature. They reference sceptical critiques such as Boone (1996) and Easterly (2003), as well as the policy-dependence arguments from Burnside and Dollar (2000) and Hansen and Tarp (2000). Their discussion of absorption problems, rent-seeking, and the misallocation of foreign funds for consumption rather than investment draws from Herve and Holzmann (1998) and echoes many long-standing ODA debates. As they put it: *"While there has been strong catching-up of some assisted regions in terms of per capita incomes, it is not evident to what extent this can be attributed to Structural Funds interventions."*

Varga and in't Veld survey a wide range of findings:

- Boldrin and Canova (2001) find no impact
- Cappelen et al. (2003) and Ederveen et al. (2002; 2006) find modest impact contingent on institutional quality
- Checherita, Nickel and Rother (2009) argue that net transfers reduce inequality but can impede output growth
- In contrast, Bradley and Fitzgerald (1988) and Bradley, Herce and Modesto (1995) show strong positive effects on output and employment, both short and long term.

Varga and in't Veld's own model concludes that Cohesion Policy spending has significant benefits for incomes and output in poorer EU regions – particularly in the medium and long term. However, they also caution that such transfers can lead to inflation, exchange rate appreciation, and crowding out of private investment – again, familiar concerns in global aid debates.[10]

We explore the specific impacts of EU Funds further in the thematic lessons below. Based on the available evidence, it is reasonable to conclude that, despite imperfections, political economy frictions, and methodological uncertainty, the EU Funds have made some contribution to the structural transformation, convergence, and development of recipient regions. They are by no means a perfect model, but they are a serious one and deserve to be studied carefully for insights into how a modern, mutualised, and effective system of global public investment might be structured.

[10] A priori one might assume that the results of a study looking at the effect of external funds on economic growth in a relatively small set of quite similar countries (as is the case of analysis of the EU Funds) would be more robust than the global analyses common in the aid literature.

Lesson 1: Strategic mutuality

The EU Funds are explicitly constructed around the principle that all member states benefit – not just a subset of "recipients." This foundational idea of strategic mutuality has been critical to building and maintaining public support for what is, in effect, an ongoing (albeit modest) redistribution of wealth within the Union. At the heart of the model lies a recognition that reducing disparities in living standards, investing in infrastructure, helping with emergencies, bolstering the natural environment and supporting innovation enhances the prosperity, security, and resilience of the entire EU, not just the regions receiving the transfers.

This principle has real and tangible effects. Net contributor countries benefit not only from occasional direct grant receipts – especially in their poorer regions – but also from having more prosperous neighbours who can participate more robustly in trade, investment, supply chains, migration governance, and knowledge exchange. This is not charity: it is enlightened self-interest.

In stark contrast, the prevailing narrative in the world of ODA remains dominated by the idea of altruistic generosity. Aid is often framed as a moral obligation or a charitable gesture from wealthier nations to poorer ones. For instance, when the UK Chancellor announced cuts to the UK aid budget in 2020, he justified it by saying that the economic situation at home meant there was "less money for charitable support to other countries." The subtext was clear: aid is optional, benevolent giving – something to be scaled back when times are tough domestically.

By contrast, EU cohesion funding is not presented as a charitable transfer, but as an investment in shared European growth and stability. While EU Funds are certainly underpinned by solidarity with less affluent regions, the dominant logic is that mutual benefit flows from convergence and the chance to participate in research and innovation. The goal is not only to raise up poorer regions, but to build a more cohesive, competitive and resilient Europe. Indeed, this is why the political economy of cohesion policy has proven more durable than many expected.

This model has important lessons for the international cooperation system. Strategic mutuality is not only more politically sustainable; it is also more dignified. It affirms the agency and contribution of all countries involved. As Huber et al. (2002, cited in Bachtler and Downes 2002) point out, there is a strong political motivation in the EU to make the benefits of membership clear to all citizens, in all regions – not just for those in donor countries, but for those in recipient countries as well.

This narrative echoes the dominant discourse associated with South-South Cooperation (SSC), where mutual benefit is emphasised. SSC is often framed in terms of mutual exchange, shared learning, and co-investment, rather than helping the less fortunate. Acknowledging there are many complexities involved in SSC relationships, the key point is that financial assistance to another country can be framed as something other than charitable.

In the EU context, this spirit of mutuality is also economically grounded. Net contributor countries like Germany and France benefit when their firms win contracts to build infrastructure in other member states – such as German engineering companies building roads or metros in Spain or Eastern Europe. These contracts not only stimulate economic activity at home but also help

integrate markets and reduce bottlenecks elsewhere in the Union.

Critically, this model also challenges the language of paternalism that continues to linger in global development. Net recipients of EU Funds are not portrayed as charity cases. They are equal members of a political and economic union, with equal rights in shaping decisions about the future of the bloc. The terminology used in EU discourse reflects this: words like "aid" are rarely used. Instead, the language is one of investment, solidarity, and shared growth.

This has relevance for current debates about the "decolonisation" of aid. A strategic mutuality narrative may provide a better foundation than outdated donor-beneficiary framings. At a time when public support for international cooperation is under strain, and geopolitical competition is reshaping development finance, the EU model offers a pragmatic and principled alternative – one that is both more equitable and more resilient.

The future of international public finance might depend not only on better delivery, but also on better storytelling. A narrative grounded in mutual interest and collective prosperity could help rebuild the social contract for global cooperation in the decades ahead. The EU Funds offer a powerful, living example of how that might work.

Net contributors benefit directly

Not only are the major net recipients of EU Funds – such as Poland, Romania or Spain – far richer than many of the countries elsewhere in the world currently "graduating" from ODA, but EU Funds are also routinely channelled to the net contributors themselves, including some of the world's wealthiest countries. These funds are used to support social cohesion, job creation, green growth, culture, research and innovation, and disaster response.

For instance, in the 2014–2020 budget, the European Regional Development Fund allocated €11 billion to Germany, the EU's wealthiest country.[11] These funds helped support a diverse set of projects across the country in 2016, including:

- Fitting vehicles in one business with alternative fuel-cell engines
- Building a creative centre for young tech entrepreneurs
- Funding research into the use of precious metals
- Improving security at a reservoir/dam
- Refurbishing Würzburg's State Building Authority to reduce CO_2 emissions
- Expanding SME production and creating new jobs
- Launching the German Museum of Technology
- Setting up a large-scale electrochemical storage facility

These examples from Germany illustrate the wide thematic range of investments supported by the EU Funds, from SME development and environmental sustainability to science and culture. They show how concessional finance, routed via Brussels, is deployed in one of the wealthiest countries in the world (a net contributor) because it is understood as part of a shared regional development strategy.

[11] Deutsche Welle (2019) 'How the EU funds its economically disadvantaged regions', DW, 7 May. Available at: https://www.dw.com/en/how-the-eu-funds-its-economically-disadvantaged-regions/a-48354538

Consider also the United Kingdom, which until recently was a key net contributor. Boumans (2014) finds that EU match funding helped strengthen Scotland's response to youth unemployment during the financial crisis and incentivised better collaboration across partner organisations. In Wales, Davies et al (2017) find that Employability Support and Engagement Signposting helped people secure better-paid work, while Basic Skills Training had strong long-term effects. One EU-Welsh government-funded SME support programme safeguarded more than 7,300 jobs and created over 4,200, while drawing in over £200 million in private investment – especially crucial during the 2008/09 global financial crisis.[12]

Beyond regional development, EU research and innovation funding also supported the UK's knowledge economy. One report found that EU research investments in 2014–15 generated over 19,000 full-time-equivalent jobs, £1.86 billion of output and over £1 billion in GDP, with secondary economic impacts felt across sectors such as manufacturing, retail, and business services (Kelly, 2016).

Disaster relief funding also illustrates the broad eligibility of EU Funds. In 2019, for example, Austria, Italy, Portugal, and Spain – all high-income countries – received hundreds of millions of euros from the EU to support recovery after severe natural disasters.[13]

This challenges a core assumption of the international aid model: that concessional finance is only needed by the poorest. In the EU system, even net contributors receive support – especially to help less advantaged regions or to promote common priorities like innovation, infrastructure, or climate mitigation. It's not just about who gets how much; it's about how money is governed and what it's intended to achieve.

If Germany, for instance, wanted to fund projects at home, it could just use national funds. So why route the money through Brussels?

The answer lies in the distinctive features of the EU Funds. They are:

- Strategically allocated, based on regional priorities
- Multi-annual, with planning cycles beyond electoral politics
- Governed collectively, creating buy-in from all Member States
- Subject to performance frameworks and conditionalities that incentivise reforms

According to Ferrer and Katarivas (2014), these structural and governance attributes – often underestimated – can lead to substantial secondary impacts, including stronger administrative capacity and better project management. The European Commission (cited in Bachtler and Downes 2002) likewise highlights the way EU Funds foster strategic thinking, better coordination, and more robust monitoring and evaluation.

These are also key reasons why net contributor countries continue to value EU Funds. It is not just the cash value that matters, but the quality, predictability, and strategic coherence of the funds. They can also be used to fund interventions that might be politically more difficult or not prioritised

[12] Final Evaluation of the Wales JEREMIE Fund conducted by independent consultants, Regeneris Consulting and Oldbell3 is available at: http://www.financewales.co.uk/performance--impact.aspx

[13] European Commission (2020) 'Coronavirus: Commission proposes to activate emergency support and extend the EU Solidarity Fund to cover public health emergencies', Press release, 2 April. Available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_20_778

for various reasons.

This is highly relevant for international development policymakers: concessional finance should not be seen merely as transitional gap-filling, but as a distinctive and high-value financial instrument that can catalyse development and improvements in governance in different settings – including wealthier ones.

The political logic also matters. As envisaged by MacDougall and colleagues, spending in wealthier countries has a political as well as economic function – helping to build and maintain public support for the EU. A study by Crescenzi et al. (2020), conducted after the UK's Brexit vote, found that EU financing strengthened support for the EU in local areas – but only where citizens could see tangible economic improvements. This finding reinforces the notion that citizen perception of mutual benefit is critical to legitimacy – a lesson that could reshape how we think about development finance globally.

Finally, many of the conditions that make concessional finance effective in the EU – strong institutions, multi-level governance, local ownership – are present in many countries that no longer receive aid. Indeed, the literature on aid effectiveness shows that aid often works better in countries that already have solid institutional foundations. Reframing international concessional finance not just as an act of charity, but as a strategic investment in mutual progress, would open new possibilities – both for recipient countries and for the contributors themselves.

Lesson 2: Aid is still valuable for countries at relatively high income levels

With convergence, knowledge-building and security as core objectives, it follows that countries at relatively higher income levels benefit. This contrasts starkly with the traditional international aid system, where it is determined that higher-income countries no longer "need" aid. For countries that cross an arbitrary income threshold, aid is abruptly withdrawn. Instead, in the EU, concessional public finance plays a redistributive role, responding not just to poverty but to inequality and divergence within the region, and helping to build knowledgeable, competitive economies. This redistribution helps build regional public goods – including human capital, infrastructure and environmental sustainability.

Continued redistribution to countries high up the income-per-capita scale is considered a legitimate and effective use of taxpayers' money. A key aim is, *"narrow[ing] the development disparities among regions and member states".*[14] As the European Commission put it when launching the 2021–2027 Cohesion Policy, it is designed to "leave no region behind," regardless of its absolute income level (European Commission, 2021).

This leads to a model of concessional finance that is different to international development aid. While some EU regions or countries can graduate from certain types of EU financial support (namely that provided under the Structural and Cohesion Funds which have income eligibility criteria), they retain access to many other EU Funds, including those for emergency response, security, environmental protection and enhancement, research and innovation, and other areas. ; in essence the volume, purpose and type of EU funds they receive evolves over time as their circumstances change. This implies there is no point at which the EU Funds become obsolete or redundant.

This stands in stark contrast to the ODA framework, where graduation is determined by income per capita as calculated by the World Bank or the OECD. Developing countries face a "cliff edge" whereby they lose access to aid support once they cross an arbitrary income threshold. According to the latest World Bank classifications (2024), 25 of the 27 EU member states are considered high-income countries, with only Hungary and Romania currently classified as upper-middle income.

This difference in logic means that EU funds continue to be deployed even in countries where extreme poverty is negligible by global standards. In the 2021–2027 Multiannual Financial Framework, the EU allocated nearly €392 billion to Cohesion Policy – about one-third of its total budget. These funds are directed not only to traditionally "poorer" member states, but also to wealthier ones for regional development, green transition, and innovation (European Commission, 2022; OECD, 2023).

The EU does not limit its support to income-based eligibility; instead, it uses a classification system based on regional GDP per capita relative to the EU average:

[14] European Commission (2015) 'European Structural and Investment Funds 2014-2020: official texts and commentaries', Luxembourg: Publications Office of the European Union. Available at: https://ec.europa.eu/regional_policy/en/information/publications/legislation/2015/european-structural-and-investment-funds-2014-2020-official-texts-and-commentaries

- Less developed regions: GDP < 75% of the EU average
- Transition regions: GDP 75–100%
- More developed regions: GDP > 100%

This practice mirrors the long-standing EU commitment to cohesion, dating back to the foundational 1977 MacDougall Report, which recommended permanent fiscal transfers between regions to smooth disparities in living standards. The principle remains: that reducing regional inequality is in the shared interest of all member states.

Several countries currently "graduating" from aid have GNI levels comparable to EU countries receiving structural funds in the 1980s. Indeed, many of the countries graduating from ODA are still well below the income levels of countries that continue to receive EU Funds, underscoring the key point: in the EU model, relatively high-income countries still receive concessional finance and it is considered valuable for their progress

This calls into question the current international model in which aid to countries like Vietnam or Indonesia is being withdrawn because their GNI has passed a certain level – even though their internal development needs remain vast. Many small island developing states have also had aid totally withdrawn (with several more crossing the income threshold over the next few years), yet these countries have the world's highest climate adaptation needs (and costs) when measured as a proportion of GDP. As international cooperation debates shift from the MDG-era poverty focus to a broader SDG vision of sustainability, the EU model offers a valuable alternative: one in which ongoing, long-term public investment continues to be relevant even in relatively advanced and prosperous economies.

In short, the EU Funds challenge the assumption (so common in global aid that concessional support must be withdrawn as countries become richer. Instead, the EU model argues that long-term progress requires sustained public investment well into high-income status, not just to foster convergence, but to support diverse public policy objectives.

Southern Europe & Ireland

The first main group of net recipients of the EU Funds – prior to the most recent enlargements – were the countries of Southern Europe, along with Ireland. These countries, though already relatively advanced economically compared to much of the Global South, were significantly below the EU average in terms of income per capita and development outcomes when they joined. As such, they became the focus of EU redistribution efforts to promote economic and social convergence.

Spain, for example, absorbed more than 20% of the EU's structural and cohesion funding in the 1990s, which played a pivotal role in building the country's transport infrastructure, including highways, railways, and urban mobility systems. As recently as 2018, Spain remained a net recipient of EU funds, contributing EUR 10.3 billion and receiving back EUR 12.3 billion – approximately 1% of the Spanish economy, a net gain of EUR 2 billion.[15] According to former Spanish Secretary of State for European Affairs, Diego López Garrido, these funds were both

[15] European Union (2024) 'Spain – EU country profile', Available at: https://europa.eu/european-union/about-eu/countries/member-countries/spain_en

effective and transformative: *"We joined the European Union when our income was around 75% of the European average, and we are now above that average. This would not have happened without a policy of European solidarity, expressed by the structural funds."*[16]

Ireland is another poster child for the success of EU funds in boosting growth and economic convergence. Between 1987 and 2000, Ireland's economy expanded by 140%, moving from approximately 70% of the EU average income to about 110%. This dramatic growth coincided with a substantial increase in receipts from EU funds starting in 1989. Though it is difficult to isolate the impact of EU financial support from other contributing factors (such as Ireland's access to the EU single market and a favourable global investment climate) evaluations of the EU's structural and cohesion funds suggest that the volume of cash injected into the Irish economy in the 1990s, at one point reaching up to 4% of GDP, had a significant positive overall impact. EU funds were strategically channelled into human capital development, including education and training, which in turn enhanced Ireland's competitiveness and attractiveness as a hub for foreign direct investment.

In Portugal, the impact of EU funds has also been broadly positive, particularly in the areas of infrastructure and regional connectivity. According to Medeiros (2018b), while EU funding did help support development, especially in transport infrastructure, the gains could have been more significant if national authorities had developed a clearer strategic vision and implementation framework. The Cohesion Fund, in particular, was instrumental in improving territorial connectivity and advancing the Portuguese Transport Strategic Plan (Medeiros et al, 2016). However, its effectiveness in supporting environmental risk prevention efforts was more limited, highlighting the challenge of aligning EU investment with domestic institutional capacity and long-term policy planning.

The experiences of these Southern European countries demonstrate how EU funds can be effectively deployed in relatively high-income contexts, not only to reduce economic disparities within the Union but also to support long-term structural transformation. The fact that these countries remained eligible for concessional finance well after crossing conventional income thresholds used by global aid systems reinforces the central point: public investment can continue to play a constructive role in national development even as income levels rise.

Eastern Europe

Since 2000, it has been the Eastern European member states that have most benefited from EU Funds in volume terms. In the 2007–2013 programming period, just over half of the total EU Fund budget was allocated to the new member states that joined in 2004 (Varga & in 't Veld 2010). These 10 post-communist countries, which had emerged from centrally planned economies just a decade earlier, entered the Union with per capita incomes significantly below the EU-15 average. With accession came not only the promise of market integration and policy harmonisation but also unprecedented access to intra-regional development funding designed to support structural transformation and convergence.

Poland, the largest of these accession countries, exemplifies this dynamic. It received €67 billion

[16] Open Europe (2012) 'EU structural funds: How they work and the options for reform', London: Open Europe. Available at: http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUstructuralfunds.pdf

in development funds between 2007 and 2013 – roughly €10 billion per year, amounting to around 3% of its GDP annually.[17] During this time, Poland experienced a 65% increase in its per capita income, becoming the world's 49th richest country by that measure. While EU market access and sound macroeconomic management certainly contributed, the injection of EU Funds also played a foundational role in infrastructure development, education, health, and innovation – consistent with the Funds' theory of change. Despite Poland's rapid development, the EU committed a further €60 billion to the country for the 2014–2020 period, underscoring the long-term nature of the EU's convergence commitment.[18] These funds continued to be directed towards key investments in roads, hospitals, schools, and other infrastructure, all aimed at narrowing internal disparities with Western EU member states.

Beyond income growth, EU Funds have also been pivotal in supporting industrial upgrading and the shift towards more innovation-led growth in the region. Radosevic (2017) argues that structural funds and "smart specialisation" strategies offer a "historical opportunity" for Central and Eastern European economies to transition towards technology-intensive industries. This perspective aligns with the EU's post-2020 programming priorities, which emphasise digital transformation, R&D, and a greener economy.

The Czech Republic provides further evidence of the EU Funds' role in regional development. Žáček et al. (2019), using panel data regression, examined the impact of EU funding between 2004 and 2015 – a period in which the Czech Republic received around 757 billion CZK (roughly EUR 29 billion in today's terms), with an additional 182 billion CZK in national co-financing. They found a statistically significant positive relationship between EU Fund allocations and economic growth at the regional level, as well as signs of economic convergence between lagging and more advanced Czech regions.

Romania also experienced measurable benefits. Dobre (2014) concludes that EU funding, equivalent to approximately 4% of Romanian GDP during the study period, yielded substantial gains in both the short and long term. Investments were primarily directed towards infrastructure, human resources, R&D, manufacturing, and technical assistance. Surubaru (2020), meanwhile, provides a more mixed picture. While he questions the extent to which EU Funds have directly driven GDP growth in Romania and Bulgaria, he underscores their importance as a vital source of public investment – especially in the context of post-2008 fiscal austerity and crisis recovery.

Overall, the Eastern European experience highlights a few key lessons. First, concessional finance can be instrumental in accelerating structural transformation – including in middle- and high-income contexts. Second, long-term, predictable financial support aligned with national strategies can help lock in reforms and investments that otherwise would be politically or fiscally difficult. Finally, the evolution of Eastern Europe's economies through EU support challenges the traditional aid paradigm, in which countries "graduate" from all concessional finance based on income levels alone. The EU Funds demonstrate that convergence is a longer, more continuous process – and that international public finance can still be highly relevant even when headline income indicators suggest otherwise.

[17] Polish Investment and Trade Agency (2024) 'European Funds', Available at: https://www.paih.gov.pl/europeanfunds
[18] Adekoya, R. (2014) 'How the EU transformed Poland', The Guardian, 1 May. Available at: https://www.theguardian.com/commentisfree/2014/may/01/eu-poland-10-years-economic

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This continued financial support to high-income countries stands in stark contrast to the operating principles of Official Development Assistance (ODA) and international cooperation more broadly, where concessional finance is typically totally withdrawn once countries cross a defined income or GNI per capita threshold.

As a result, aid – both EU and bilateral – is being withdrawn from many so-called "middle-income" countries such as South Africa, Vietnam, and Indonesia, and some SIDS, under the logic that these countries are now "in a position to fund [their] own development". Yet this assumption frequently overlooks the scale and depth of ongoing needs. Vietnam, for instance, has a GDP per capita of around $2,500 – compared to over $15,000 in Poland – and remains home to nearly 30 million people whose basic needs are still unmet. Clearly many SIDS will be unable to fund their (relatively) massive climate adaptation and resilience needs without external financial support.

Meanwhile, EU member states like Hungary, Romania, Ireland and Spain – countries that by global standards are relatively wealthy – have continued to receive structural and cohesion funding.

This raises a fundamental question: Why should all concessional international finance be phased out for countries that are still far below EU average living standards, when there is evidence that concessional finance still matters hugely for high income countries?

The Sustainable Development Goals (SDGs) point clearly toward a new paradigm. SDG 10 explicitly commits countries to "reduce inequality within and among countries," while the broader agenda implies a transition to long-term development sustainability. Yet the global aid architecture has yet to adapt accordingly. The dominant aid model has not yet caught up with the ambitions of the SDGs, the realities of emerging economies, or the structural lessons from decades of EU experience. A new vision for global public finance is urgently needed – one that builds upon the EU Funds approach and reimagines concessional finance as a valuable tool for inclusive and sustainable development at every stage of development and at all national income levels.

Lesson 3: Stakeholders, not beneficiaries

The governance of aid and development cooperation is historically rooted in a donor-recipient model – an "us-and-them" logic that reinforces asymmetric relationships. In contrast, the EU Funds operate under a radically different principle: all members are stakeholders. Formally, all EU countries contribute, all receive, and all participate in decision-making. This governance structure reflects a mutual accountability model.

Most evidence from the international aid sector suggests that governance arrangements are critical to the success or failure of interventions. This is the heart of the "aid effectiveness" debate, which has focused for years on issues such as country ownership, alignment with national priorities, and mutual accountability. But how do these principles play out in the EU context? What are the accountability and governance arrangements of the EU Funds? How important are they to the Funds' effectiveness? Are some countries better able to secure funding than others? How have systems evolved through experience?

The most important distinction between the EU Funds and traditional ODA is that all countries – whether net contributors or net recipients – sit around the same table to collectively decide policies and spending priorities. While power asymmetries can never be entirely avoided or eradicated, the EU model is a far cry from an international aid model in which donors unilaterally decide what "counts" as aid in the first place then arbitrarily allocate resources to beneficiaries as they wish.

MacDougall's 1977 report recognised that equalisation mechanisms within mature federations are typically supported by strong federal structures: parliaments, courts, and shared political institutions. His question – whether redistributive fiscal mechanisms can work in looser unions – remains pertinent. Yet the EU Funds offer one model of how governance arrangements can embody shared sovereignty without fully centralised authority.

Governance in the EU Funds also stands out because of the shift of control to national and local governments. National authorities prepare Partnership Agreements and Operational Programmes to determine how funds are spent. While the European Commission retains an oversight role, this decentralised model supports stronger ownership and local responsiveness. This is a critical lesson for international development, where the principle of "country ownership" is frequently cited but often compromised in practice.

The Multiannual Financial Framework (MFF) provides predictability and a long-term planning horizon – a marked contrast to the often-volatile, year-by-year aid budgets in the international sphere. As the EU itself puts it:

"In order to avoid annual rows over funding, the EU prefers to have one big argument every seven years and agree an overall allocation of funding for that whole seven-year period. This is called the Multiannual Financial Framework…"

The EU's 2014–20 reforms aimed at simplification, including streamlining the number of Operational Programmes, reducing institutional complexity, and improving IT systems for monitoring and reporting (Belicka, 2014). These measures aimed to reduce administrative burden

and strengthen coherence across the European Structural and Investment Funds.

Can this approach be adapted for global development cooperation? Would it be feasible to adopt an international system in which all countries contribute, all receive, and all help set the rules? Such a system could rebalance power and build a true sense of co-ownership – addressing one of the biggest critiques of current aid arrangements. Still, some argue that the EU Funds' governance mechanisms are context-specific and not easily replicable outside the EU's political and institutional framework.

A useful comparison can be drawn from the PHARE programme, which channelled funding to accession countries in the 1990s. It aimed to prepare these countries for EU membership through investments in public administration, infrastructure, and economic reform. The formal evaluation (European Commission 2015) noted positive outcomes in some areas, but also typical implementation challenges: weak ownership, insufficient capacity, delays, and poor follow-up. This parallels many global aid programmes. But the big difference is that PHARE recipients had a clear end-goal – EU accession – which provided stronger incentives for reform and alignment with EU norms. This contrasts with the open-ended and often externally-imposed conditionalities of global development programmes.

Nonetheless, the EU Funds' bureaucracy is not without criticism. Bachtler and Downes (2002) caution that external funding may distort national priorities, overwhelm national systems, or consume disproportionate administrative resources. These risks are familiar to international development practitioners.

Recent evaluations continue to stress the importance of capacity, local leadership, and institutional context. For example, the European Court of Auditors (2023) found that, while administrative capacity has improved in many member states, significant disparities remain, with some regions still struggling to design and implement programmes effectively. Capacity-building remains a vital complement to financial support.

Ultimately, the governance model of the EU Funds demonstrates that financial transfers are most effective when embedded in political and institutional relationships of reciprocity and mutual accountability. That's what makes the EU Funds more than just a mechanism for redistribution – they are a platform for shared development, strategic alignment, and regional integration. For the international system, this raises an urgent question: how can governance arrangements be reimagined so that all countries are not just recipients or donors, but stakeholders in a global project of sustainable and inclusive development?

Governance Feature	EU Funds	Traditional ODA
Funding Model	All members contribute and receive	Donors fund, recipients receive
Decision-Making	Joint governance (shared EU institutions)	Donor-led, often fragmented
Planning Cycle	Multiannual Financial Framework (7-year cycles)	Annual/short-term cycles

Ownership	National and regional authorities lead programming	Recipient input varies; often driven by donor priorities
Conditionalities	Light-touch, strategic alignment with EU priorities	Often policy-heavy conditionalities sometimes tied to donor objectives
Implementation	Co-managed by EU, national and subnational bodies	Donor agencies or multilateral implementers dominate
Evaluation & Learning	Systematic EU-wide monitoring and reporting	Project-based, fragmented evaluations
Legitimacy & Narrative	Framed as solidarity and mutual benefit	Framed as charity or moral obligation
Capacity & Admin Burden	High administrative expectations, sometimes burdensome	Often mismatched to recipient capacity

Enhanced democratic oversight

When it comes to democratic oversight and decision-making, do the EU Funds have anything to teach the world of aid? Evidence suggests they do – particularly in how they institutionalise accountability at multiple levels of governance, embed participatory structures, and involve parliaments and local stakeholders.

A first point of comparison is the role of the European Parliament. Since the Treaty of Lisbon (2009), the Parliament has had co-decision rights over all cohesion policy regulations. As Petzold (2013) notes, this marked a shift from symbolic influence to genuine legislative power – although "financial and procedural issues remained part of the negotiations on the Multiannual Financial Framework and hence subject to unanimous agreement in the Council, with limited Parliament influence." Parliament was also behind the renaming of the Cohesion and Structural Funds as the European Structural and Investment Funds (ESIF), a change described by Cremades (2014) not just as cosmetic but as *"a declaration of the ambition to make the policy the Union's main investment policy."*

The Parliament also played a central role in strengthening the Partnership Principle, which requires involvement of actors and institutions beyond central government – regional and local authorities, as well as economic, social and civil society organisations – in the design, implementation, monitoring and evaluation of ESI Funds. This is a concrete example of multi-level governance, a concept explored in depth by Pazos-Vidal (2014), who shows how the EU model reflects increasingly interlinked levels of authority: supranational, national, regional and local.

Member States are now obliged to organise inclusive partnerships throughout the programming cycle. In practice, this is not always implemented effectively – for example, consultation timelines are often too short to allow meaningful engagement (Petzold 2015). Nevertheless, this legal requirement for broad participation is a marked contrast with the top-down model of international development aid, where donor-driven planning and weak recipient voice have been long-standing concerns.

One of the more innovative governance instruments is Community-Led Local Development (CLLD), described by Peters (2013) as "a particularly powerful tool, especially in times of crisis,

showing that local communities can take concrete steps towards forms of economic development which are smarter, more sustainable and more inclusive." CLLD operates at the sub-regional level and is led by Local Action Groups (LAGs). These LAGs are composed of both public and private partners and are supposed to reflect the socio-economic composition of their communities. Korotka and Groenendijk (2014) detail the inclusion of representatives from public authorities, economic and social partners, NGOs, environmental organisations, and groups advocating for gender equality and non-discrimination.

The role of EU Funds in promoting citizens' participation is also emphasised by Courades and Brosei (2018), who argue that such mechanisms can deepen the democratic legitimacy of European policy. That said, the effectiveness of CLLD varies: as Salchner (2018) warns, many LAGs operate with "an extremely lean structure and/or struggle with a rather weak institutional embedding," raising concerns about sustainability and representativeness.

Another innovation introduced during the 2014–20 programme cycle was the requirement for Member States to establish effective complaint mechanisms. According to Polverari and Michie (2017), these mechanisms must provide written responses that explain decisions in clear, non-technical language and outline their consequences (e.g., reimbursements), thus institutionalising a degree of redress for citizens and beneficiaries.

By contrast, international aid has long struggled with the challenge of democratic oversight. The aid effectiveness agenda – emphasised since the 2005 Paris Declaration – has called for stronger country ownership and accountability, but aid effectiveness principles are voluntary and progress remains mixed. Decision-making is often donor-driven, and opportunities for civil society or community participation are limited. Moreover, parliamentary scrutiny – either in donor or recipient countries – is often weak or symbolic. These challenges have led to increasingly loud calls for aid reforms and for the "decolonisation" of aid.

Could models like the EU's CLLD or its emphasis on parliamentary co-decision be adapted for the global aid architecture? Could national parliaments in recipient countries play a stronger role in oversight of ODA? There are signs of movement: some bilateral donors have attempted to put in place participatory planning processes, and global initiatives like the Global Partnership for Effective Development Cooperation (GPEDC) continue to push for mutual accountability. Yet the scale and institutionalisation of participatory governance within the EU Funds remains ahead of most international aid systems.

Finally, the EU's seven-year Multiannual Financial Framework (MFF) – as explained in an EU Factsheet – provides a planning horizon that reduces uncertainty and enables more strategic investment: *"In order to avoid annual rows over funding, the EU prefers to have one big argument every seven years and agree an overall allocation of funding for that whole seven-year period… Although the detailed EU budget is still negotiated and agreed annually, this takes place within the overall MFF, and thus these total amounts are unlikely to shift substantially over this period."* (Greer et al, 2019)

In sum, while EU Fund governance is far from perfect – and sometimes burdened by bureaucracy – it offers a more compelling vision of democratic oversight that the global aid community could

learn from. By embedding participatory structures, providing longer-term planning, and giving legislative bodies real influence, the EU has shown how to manage concessional finance in a way that enhances legitimacy and performance. For aid practitioners seeking to "decolonise" the international aid system or advance more equitable partnerships, these features merit close attention.

Innovations in co-financing

According to the legislative proposal of the European Commission, a Partnership Agreement (PA) is the central programming document prepared by each Member State in collaboration with the Commission. The PA outlines the overall socio-economic strategy for implementing the reformed cohesion policy. It is guided by a broader Community Strategic Framework, also developed by the Commission, which helps align the strategic content of the PA and other programming documents across Member States (Zuber 2013).

A key innovation introduced in the 1988 reform of the EU cohesion policy was the principle of additionality – the requirement that EU Structural Funds should not be used to substitute national public expenditure. As Bollen (1999) notes*, "the EU Structural Funds cannot, in principle, be used to replace Member States' funds,"* ensuring that EU support truly adds value rather than replacing existing domestic investment.

Under this principle, Member States are required to co-finance EU-supported programmes, contributing up to half of the funding for projects, depending on the objectives and the relative development of the region in question (Bollen 1999). This co-financing obligation not only ensures shared responsibility but also acts as a safeguard. As Varga and in 't Veld (2010) argue, it serves as "an insurance that EU funds are not misspent on unproductive projects." Their analysis suggests that co-financing has no negative impact on GDP – in fact, the gains from more productive, better-targeted spending soon outweigh the fiscal costs of national contributions.

The variation in national co-financing rates reflects the diverse economic capacity of Member States. For instance, in Germany, national contributions range from 15% in less-developed regions to 50% in more prosperous regions (German Ministry for Economic Affairs and Energy 2017). Unlike the Common Agricultural Policy budget, Structural Funds are used predominantly for capital investments – such as infrastructure and innovation – and cannot be used for recurring operational costs (Ferrer and Katarivas 2014).

Bachtler et al. (2014) categorised countries into five bands based on their co-financing effort relative to GDP:

1. Over 0.75% of GDP: Latvia (0.85%), Bulgaria (0.79%)
2. Between 0.55% and 0.7%: Poland, Romania, Lithuania, Slovakia, Czech Republic, Hungary, Portugal
3. Between 0.2% and 0.35%: Malta, Italy, Slovenia, Greece
4. Between 0.1% and 0.2%: Estonia, Spain, Finland, Ireland, Belgium, France, Cyprus
5. Between 0.02% and 0.07%: Sweden, Germany, Austria, United Kingdom, Netherlands, Luxembourg, Denmark

There is also a ceiling to overall receipts: net transfers from EU Funds are capped at 4% of a

country's GDP – a rule designed to preserve fiscal discipline and proportionality. However, actual receipts tend to be lower. In 2017, the top net recipients, as a share of GDP, were Greece, Hungary, Bulgaria, and Lithuania, each receiving over 2% of GDP net from EU Funds (i.e. after accounting for their own contributions).[19]

This model of co-financing, which ensures both national ownership and alignment with EU priorities, holds valuable lessons for the broader world of development finance. International aid often lacks such built-in mechanisms for joint investment, which can limit recipient government ownership and long-term commitment. A more deliberate emphasis on co-financing in global development cooperation could enhance alignment, increase impact, and help ensure sustainability. Moreover, co-financing can serve as a signal of commitment, incentivising reforms and fostering better project selection and implementation. It is important to note that some worry that requiring co-financing could penalise poorer or smaller countries.

Predictability

Predictability is a recurring challenge in both EU Funds management and international development cooperation. One of the persistent issues in the aid world is the delay between fund commitment and actual disbursement, which can significantly reduce the effectiveness and timeliness of interventions. Varga and in 't Veld examine this same issue in the context of EU Funds and find that the costs of delays are substantial. They argue that accelerating disbursement could significantly improve outputs, especially in regions where financial liquidity and administrative capacity are constrained.

This challenge is especially important in light of the EU's ambition to position the European Structural and Investment Funds as timely and responsive tools for development. Yet, the lag in funding deployment undermines the very goals of cohesion and convergence that these Funds aim to promote. In fact, delays in EU fund disbursement can sometimes extend into multiple programming periods, reducing the utility of seven-year planning cycles. Such issues are mirrored in the international aid landscape, where slow disbursement often leads to project underperformance, loss of reform momentum, and inefficient use of resources.

Another relevant parallel between EU Funds and the aid system is the difficulty of isolating the impact of individual funding instruments. As many analysts have pointed out, including Ferry and Kah (2016), it is extremely difficult to separate out the specific impact of EU Funds from that of wider EU cohesion or national policies, because there is no clear counterfactual. This mirrors one of the biggest challenges in development impact evaluation: attributing outcomes to a specific intervention in the midst of many overlapping efforts.

Nevertheless, Ferry and Kah observe a positive shift in thinking: from merely avoiding duplication and overlap among different Funds, to fostering synergies in design and implementation across thematic priorities. They describe this as a move away from a siloed approach and towards a more integrated and strategic model of public investment. In the language of international development, this evolution aligns with the growing demand for policy coherence, a principle also embedded in the SDGs (particularly SDG 17.14).

[19] Luxembourg was also in the top 5 because of the way the figures are calculated. It is home to significant EU Institutions.

This convergence between EU and international thinking is also reflected in the growing focus on a "results orientation". As Zuber (2013) and others have noted, EU cohesion policy has increasingly adopted the rhetoric and methodologies associated with the results-based management (RBM) movement dominant in development aid. This includes greater use of indicators, performance frameworks, and ex-ante conditionalities to guide funding decisions and monitor outcomes.

However, this shift toward measurable outputs and performance benchmarks is not without risks. As development practitioners have found, a strong focus on quantifiable "results" can sometimes undermine critical process issues, including inclusion, ownership, and institutional strengthening. For instance, when incentives are structured only around quick and measurable outcomes, there is a tendency to prioritise "low-hanging fruit" over transformative but slower reforms. This concern is echoed in the EU literature as well, where implementation speed and absorption rates can sometimes become ends in themselves, rather than means to broader development goals and more structural development shifts.

As the EU further develops its own monitoring and evaluation systems, and as international cooperation systems consider reform, finding the right balance between predictability, timeliness, strategic coherence, and results orientation will be critical for success.

Ex-ante conditions

Conditionalities for receiving grants in the EU setting are primarily ex-ante – that is, countries must meet governance and policy requirements before receiving funding. Once these conditions are met, money flows more freely, reducing the risks associated with disbursement and implementation. This approach stands in contrast to much of the international aid architecture, where conditionality is often ex-post or attached to ongoing funding in ways that can undermine national ownership.

The aid conditionality literature is vast and generally critical. Much of it targets the perceived inappropriateness of the policy reforms demanded (often aligned with outdated "Washington Consensus" frameworks), as well as the way conditionalities erode domestic accountability by creating obligations to donors rather than citizens. While some of these critiques also apply to the EU Funds, the literature is considerably more positive. This may be because EU conditionalities tend to be procedural rather than prescriptive, and because EU member states share a clearer set of institutional goals. The EU model benefits from being a more cohesive bloc, with ex-ante conditions that are seen as part of a collective investment in shared standards and systems, not external impositions.

This raises the question: can conditionality be done well? Might the international development sector learn from the EU's approach? A major study commissioned by the European Commission in 2017 concluded that while ex-ante conditions added value – by triggering national reforms and improving fund usage – a number of implementation challenges were identified. These included (Metis et al, 2016):

- The complexity of fulfilling and validating the conditions;
- Overly broad scope in some cases;
- Lack of plans for long-term monitoring and follow-up; and

- The continued implementation of programmes even when conditions had not been fully met – a familiar issue of moral hazard in both EU and ODA systems.

The 2014–2020 legislative package introduced a comprehensive framework of ex-ante conditionalities (ExACs), *"allowing for incentivising the preparation of necessary studies, strategies and implementation of various parts of European legislation."* Zuber (2013) notes that ExACs are crucial to improving the efficiency and effectiveness of EU Funds, because they *"revolutionise the process of policy planning and implementation on the side of Member States,"* creating stronger linkages between EU fund management and national policy frameworks.

As the European Commission explained in its 2017 review of ExACs: *"The effectiveness of public investments and the durability of their results depend on having in place suitable policy, regulatory and institutional conditions… [Systemic] weaknesses are major bottlenecks hindering effective and efficient public spending… The introduction of ex-ante conditionalities… sets sector-specific and horizontal conditions to be met at an early stage of implementation and by the end of 2016 at the latest."* (European Commission 2017)

The same report details a wide range of positive outcomes linked to the conditionalities. These include:

- Triggering structural reforms and improving institutional capacity;
- Accelerating the implementation of EU law (the acquis communautaire);
- Better targeting of EU and national public investments;
- Strengthening climate and environmental policy implementation;
- Improving the investment environment for businesses;
- Stimulating coordination across public administrations and stakeholders.

There are 48 formal ExACs in the ESI Funds framework, covering general, sector-specific, and thematic areas (especially in rural development and maritime/fisheries). The conditionalities are designed to strengthen policy and regulatory environments well beyond fund administration. For example:

- Public procurement conditions require transparent, competitive processes;
- Environmental conditions support the enforcement of key EU environmental directives;
- SME-related conditions (e.g. under the Small Business Act) call for reducing the time and cost of starting a business;
- Transport-related conditions require strategic frameworks for infrastructure investment.

Real-world impacts include the case of Greece, where a digital growth-related ExAC led to the creation of a General Secretariat for ICT, later upgraded to a Ministry, along with a new national digital strategy. This illustrates how EU conditionality, when well designed, can be both reform-triggering and nationally owned.

More recent reviews, such as those by Bacigalupo et al. (2022) and the European Court of Auditors (2023), support these findings, arguing that ExACs have generally improved policy coherence and implementation readiness, though they caution that enforcement and long-term monitoring remain weaknesses.

As international donors debate how to better align aid with country systems, the ExAC model offers an alternative: conditionalities that are forward-looking, jointly agreed, and designed to strengthen systems before the money flows. In this sense, the EU's approach offers a possible blueprint for "constructive conditionality," one rooted in partnership rather than patronage.

In their study of the contribution of EU Funds on jobs and growth, Bachtler et al. (2016) discuss changes in the regulatory framework and raise all the core issues that are familiar to anyone working in aid effectiveness: the complexity of administrative procedures and associated workloads, the functioning of subsidiarity, results orientation, administrative capacity, and implementation procedures. These are not minor technicalities – they are central to the efficiency and credibility of EU spending and resonate closely with long-standing critiques of international aid modalities.

Governance quality remains the most critical factor in determining the effectiveness of EU Funds. Rodriguez-Pose and Garcilazo (2013), using governance indicators for 169 EU regions from 1996–2007, find that government quality is essential for efficient spending of Structural and Cohesion Funds – especially where annual allocations exceed roughly EUR120 per capita. Without improved governance, even large volumes of spending are unlikely to translate into sustained growth. Their research underscores the idea that "more money" is not a panacea and that institutional capacity is a bottleneck that must be addressed proactively.

Ferrer and Katarivas (2014) note that 80% of EU Funds are managed by national administrations under nationally defined plans and priorities. While this allows for local tailoring, it also introduces institutional variation in outcomes. The tension between national ownership and coherent standards echoes challenges in the international development system, where donor-driven projects often run in parallel to weak national systems.

Katsaitis and Doulos (2009) go further, warning that in contexts of low institutional quality, EU Funds can actually have negative effects. Their study of 15 countries over 1970–2005 finds robust evidence that EU funding can exacerbate misallocation of resources and fuel rent-seeking when corruption is prevalent. This risk mirrors longstanding fears in ODA about moral hazard, poor targeting, and elite capture.

Petsinis (2014), in his analysis of Slovakia, confirms this concern. While praising the Slovak government's capacity to absorb and allocate funds, he warns that embezzlement and corruption remain persistent risks. Similarly, Fazekas et al. (2014) find that EU funds increase the opportunity for grand corruption in Central and Eastern Europe by adding large sums of public money to weak control environments. In a subsequent study, Fazekas and King (2017) show that EU funds can increase corruption in the Czech Republic and Hungary by up to 34%, largely due to a breakdown in domestic accountability systems. Their key recommendation is to reduce administrative complexity and increase transparency, particularly by making contracting processes more open and lowering barriers to market entry.

Concerns about irregularities remain a constant in the EU context, as they do in the broader world of international development cooperation. Markevica (2015) documents the systems implemented for preventing, detecting, and correcting irregular use of funds. These mechanisms are, in essence,

similar to the fiduciary controls used in international aid – though notably, there is little evidence that the EU uses parallel implementation units (PIUs), which have been common, though controversial, in aid practice for maintaining strict financial oversight abroad.

A noteworthy finding from Weber et al. (2014) is that the cost of such controls during the 2007–2013 programming period was around €860 million – approximately 0.2% of the total ERDF/CF and ESF budget of €491 billion. In terms of protecting public funds, this cost is arguably justified and serves as a useful benchmark for the aid community, where debates about the costs of safeguards versus their effectiveness continue to rage.

In response to this complexity, some governments have undertaken reforms to improve fund management. Kondor and Tóth (2015) describe how Hungary streamlined administration through a new computerised information system designed to reduce paperwork, enhance data exchange, and simplify grant procedures. This "simplification agenda" is echoed at the EU level, where there has been increasing pressure to reduce the compliance burden on beneficiaries – especially SMEs and municipalities with limited capacity.

Since 2020, reforms to the EU's Cohesion Policy – especially under the 2021–2027 Multiannual Financial Framework and Recovery and Resilience Facility (RRF) – have introduced performance-based disbursements and milestones tied to reforms, echoing trends in ODA such as results-based financing. Early analysis of the RRF shows that while it offers new opportunities for linking investment with structural reform, it also requires sophisticated administrative and monitoring systems – something not all EU states are equally well-equipped to deliver (Darvas, 2021; Zuleeg et al., 2022).

In short, EU Fund governance reflects many of the strengths and weaknesses of the broader aid system, but with some key differences: stronger internal ownership, a shared political project, and a more formalised system of mutual accountability. At the same time, it demonstrates that even in high-income settings, the integrity and impact of concessional finance hinge on strong institutions, robust oversight, and constant efforts to reduce administrative complexity.

The EU's use of ex-ante conditionalities (ExACs) offers a pragmatic model for embedding governance, policy readiness, and institutional capacity into the architecture of public finance – not after funds are disbursed, as in traditional aid conditionality, but before. In doing so, the EU shifts the emphasis from punitive or externally imposed conditions to collaboratively agreed prerequisites that aim to enhance the effectiveness and impact of investment. These are conditions of preparedness, not ideological conformity.

This approach offers useful lessons for a reimagined global public finance system, particularly one aligned with the vision of Global Public Investment (GPI). Rather than enforcing rigid policy reforms in exchange for aid – often perceived as intrusive, undemocratic and illegitimate in the global South – ex-ante conditions could focus instead on creating a minimum threshold of institutional readiness, policy frameworks, and strategic planning. This would preserve national ownership while ensuring that concessional finance is used effectively and strategically.

For example, countries seeking access to global investment windows for climate finance,

infrastructure, or health systems strengthening could be required to demonstrate that they have a national strategy in place, an appropriate regulatory environment, or basic administrative capabilities. These conditions would be transparent, agreed multilaterally, and focused on systems and capacity rather than political alignment. Importantly, they could be linked to technical assistance and peer learning, making the process one of joint problem-solving rather than one-sided judgment.

The EU's experience also shows the importance of time-limited and targeted conditions, monitored in real time, with institutional support to meet them. This reduces the moral hazard and post-hoc enforcement problems that plague traditional aid conditionality. Moreover, as the EU case suggests, the introduction of such conditions can catalyse deeper reforms with spillover benefits well beyond the original investment project.

That said, adapting this model to the global level will require tailoring. Unlike the EU, the global system lacks a political union or a centralised legal framework, so the legitimacy and enforcement of conditionalities will have to rely more heavily on incentives, peer review mechanisms, and reputational effects than on formal obligations. Conditionalities must also be flexible, proportionate, and sensitive to context, avoiding the rigidity and one-size-fits-all pitfalls of past donor conditionality models.

Nevertheless, the idea that concessional public finance can be made more effective and politically sustainable when ex-ante conditions focus on institutional readiness and shared goals – rather than policy compliance – deserves serious consideration. It could form one of the central planks of a next-generation global public finance system that moves beyond the donor–recipient binary and toward genuine multilateral partnership.

Lesson 4: Beyond poverty reduction

The core objective of the EU Funds is not simply to reduce poverty but to promote multiple other key objectives, including fostering convergence and cohesion, fostering competitiveness and building knowledge through research, science and innovation, responding to emergencies, strengthening security and territorial integration, and supporting culture.

This broader framing should challenge the prevailing orthodoxy in international public finance. Aid flows, especially Official Development Assistance (ODA), remain largely driven by a fairly narrow focus on poverty reduction. While this is undeniably vital, it represents only a fraction of what concessional public finance could and arguably should be doing. As 21st-century challenges – from climate breakdown to digital exclusion to geopolitical fragmentation – become more acute, the development community must ask whether it is time to broaden its objectives. The EU's experience offers a compelling argument for doing so.

Since their inception, the EU Funds have tackled a wide range of economic and social challenges. While the EU Funds also support poverty reduction and social cohesion – including through a dedicated emergency solidarity instrument – their remit is much wider. They finance trans-European transport networks, research and innovation, SME development, environmental protection, the digital transition, among other priorities. This reflects a conception of public investment as enabling progress across all domains of collective life, and as a tool that has ongoing relevance and importance across a broad range of areas.

While ODA also funds a range of thematic areas, in practice, poverty remains the dominant organising principle. This is partly because ODA eligibility is tied to GNI per capita – a proxy for poverty. It is also because the core strategies of most development agencies continue to centre on poverty alleviation. For example, UK law mandates that ODA spending must be targeted at poverty reduction, and many other donors operate with similar restrictions. The Millennium Development Goals embodied this logic; and while the SDGs have broadened the agenda, aid thinking and practice often remains anchored in the MDG mindset.

In contrast, the EU Funds have evolved in alignment with shifting political priorities and emerging external challenges. While their foundational purpose – reducing divergence – has remained stable, the specific objectives have been periodically updated, often in anticipation of future needs. The table below illustrates the changes between the 1994–99 and 2021–26 programming periods. These changes reflect how the EU has responded to growing interest in green and digital transitions, as well as migration and urbanisation – trends mirrored in the Global South.

Evolving objectives of the EU Structural and Investment Funds, 1994-99 vs 2021-26

1994-1999	2021-2026
1: Promoting the development and structural adjustment of regions whose development is lagging behind.	1: A Smarter Europe, through innovation, digitisation, economic transformation and support to small and medium-sized businesses.
2: Converting the regions, frontier regions or parts of regions (including employment areas and urban communities) seriously affected by industrial decline.	2: A Greener, carbon free Europe, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change.

3: Combating long-term unemployment and facilitating the integration of young people, and persons vulnerable to exclusion from the labour market, into working life.	3: A more Connected Europe, with strategic transport and digital networks.
4: Facilitating the adaptation of workers of either sex to industrial changes, including changes in production systems.	4: A more Social Europe, delivering on the European Pillar of Social Rights and supporting quality employment, education, skills, social inclusion and equal access to healthcare.
5a: Promoting rural development by speeding up the adjustment of agricultural structures in the framework of the reform of the Common Agricultural Policy. 5b: Promoting rural development by facilitating the development and structural adjustment of rural areas.	5: A Europe closer to citizens, by supporting locally-led development strategies and sustainable urban development across the EU.
6: Promoting the development and structural adjustment of regions with an extremely low population density.	

The allocation criteria for the 2021–2026 period also reflect increased attention to climate change and the integration of migrants. A new 'safety net' mechanism was introduced to prevent excessive reductions in funding for some Member States.

The European Commission's emphasis on thematic concentration – requiring funds to focus on key priorities – has been in place since the 1980s. This principle has helped align EU regional policy with broader EU strategies, improving coherence and policy integration.[20] In 2017, the largest share of spending was on sustainable growth and natural resources, followed by cohesion and competitiveness. By contrast, ODA from EU institutions in 2018 remained focused on social infrastructure and services, economic infrastructure, and humanitarian aid.

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There is a growing chorus calling for ODA to be repurposed – or complemented – by instruments that match the breadth and ambition of the Sustainable Development Goals. The SDGs, after all, require universal progress in areas like infrastructure, innovation, climate, and governance. These goals demand investment not only where poverty is deepest, but also where systemic progress can be made. As such, the EU Funds model may offer a more appropriate template for public finance.

Just as EU countries invest in richer regions to strengthen resilience and cohesion, so too should global finance systems be enabled to invest in upper middle-income countries grappling with inequality, environmental and climate vulnerability, and technological disruption.

The sections that follow explore the range of sectors supported by the EU Funds, and the potential lessons they offer for a transformed international public finance system.

Business & Jobs

Following the global financial crisis of 2008, support to small and medium-sized enterprises

[20] In their discussion of this principle, Bubbico and Langthaler (2015) are broadly supportive but recognise the danger that too much concentration might not fit with specific regional needs.

(SMEs) emerged as a key focus of the EU Funds, both as a strategy for economic recovery and as a long-term investment in economic resilience and job creation. This shift reflected the growing recognition that SMEs are the backbone of the European economy, accounting for over 99% of all businesses and around two-thirds of total employment in the EU.

To catalyse SME development, the EU Funds increasingly employed financial instruments such as guarantees and equity investments, leveraging between 6 to 30 times the original EU contribution. Between 2007 and 2013 alone, EU Funds directly supported approximately 198,000 SMEs, including 77,800 start-ups, and helped around 2.4 million people secure employment within six months of intervention. These figures point to a significant mobilisation of resources and impact during a period of considerable economic distress.

According to Ferrer and Katarivas (2014), *"the economic effects of promoting SMEs are highly positive, and the returns to the EU in terms of economic growth and employment are a multiple of the investment."* Similarly, Florio et al. (2017) evaluate the €47.5 billion contribution of the European Regional Development Fund (ERDF) to SMEs during the 2007–2013 period and describe its effect as primarily stabilising and counter-cyclical. They argue that while the intention was not necessarily to address long-term structural barriers, the funding played a crucial role in buffering employment and investment against the recession's worst effects.

Yet the effectiveness of these interventions is not universally accepted. Cobos (2018) presents a more critical view, suggesting that the reach of EU Funds has been relatively limited, particularly in addressing the vast diversity of SME needs across Europe. He highlights implementation barriers, insufficient coverage, and the challenge of scaling such programmes to meet the full scope of demand across EU Member States.

The COVID-19 pandemic reinforced the trend toward leveraging public funds to bolster the private sector. Much like the post-2008 period, EU financial support was quickly mobilised in 2020–21 to protect jobs, prevent business closures, and strengthen SMEs' access to liquidity. The European Commission's Coronavirus Response Investment Initiative (CRII) and CRII+ channelled unspent cohesion funds toward crisis response, with a major emphasis on business continuity and economic recovery[19].

Across both crises – the financial crash and the pandemic – a pattern has emerged: EU Funds are used flexibly and at scale to stabilise and stimulate the real economy, especially by supporting SMEs as engines of local employment and innovation.

There are methodological insights worth drawing here. The EU's deployment of financial instruments to support SMEs offers lessons for the growing field of blended finance in development cooperation. However, as both EU and global experiences show, measuring the leverage and development impact of such instruments remains challenging. Further comparative research could help determine where and how public finance can most effectively stimulate private sector development without displacing domestic policy priorities or distorting markets.

Innovation & Research

In the 2007–2013 period, EU Funds supported an impressive 61,000 research projects. Although

the EU's R&D expenditure accounted for only around 5% of total R&D spending by member states, its investments were catalytic, often targeting areas underfunded nationally or too large for individual countries to tackle alone. They also fund collaborative projects which involve institutions and researchers in multiple countries. EU Funds in this space typically avoid capital expenditures (e.g. buildings, existing machinery, or non-R&D linked staff) and instead focus on strategic, high-impact investments. As Ferrer and Katarivas (2014) note, the EU's Framework Programmes for research have added significant value for the business sector – estimating returns of up to 13 times the initial EU investment. They attribute this outsized impact to "the economies of scale that pooling resources for research at EU level can generate."

Box: Horizon 2020

Horizon 2020 is a flagship EU programme designed to scale up investment in innovation across the continent, with €93.5 billion of funding allocated over seven years between 2021 and 2027. Its stated purpose is to "raise the level of excellence in Europe's science base and ensure a steady stream of world-class research to secure Europe's long-term competitiveness. It supports the best ideas, develops talent within Europe, provides researchers with access to priority research infrastructure, and aims to make Europe an attractive location for the world's best researchers." (European Commission, 2011)

An evaluation of the programme found that although the relationship between policy and outcomes remains complex, there is broad consensus that "access to external financing for fast-growing, highly innovative projects" is essential – and that public investment should help crowd in private capital (e.g. venture funding) to bridge early-stage gaps. It recommended grant schemes specifically for high-risk, early-stage innovation projects – especially those led by young firms facing the steepest financial barriers. The study also confirmed a strong positive correlation between national R&D spend and competitiveness, reinforcing the economic rationale for sustained public investment in this sector.

The 2014–2020 EU budget reflected these priorities by allocating more structural funds for research and innovation, alongside a new Framework for State Aid for Research & Development & Innovation, aimed at addressing market failures that constrain financing for innovation (Renda et al, 2015).

There are important lessons here for international development cooperation. First, public finance is indispensable for research and innovation, not only as a primary funding source, but also as a tool to de-risk and crowd in private capital, particularly in high-risk, early-stage ventures.

Second, the EU's heavy investment in innovation within its borders – despite many recipient countries being high-income – raises questions for ODA allocation logic. Many countries currently "graduating" from EU development support or international aid more broadly still face considerable constraints in their research and innovation ecosystems. The benefits of innovation investment – economic transformation and diversification, tech upgrading, green and blue growth – are not exclusive to high-income contexts, and a more strategic and inclusive global approach might take a cue from the EU's willingness to finance these public goods across its region.

Finally, the EU's long-term approach, focus on transnational collaboration, and emphasis on smart

specialisation strategies could be instructive for designing regional innovation systems beyond Europe – particularly in contexts aiming to build endogenous development capacities rather than simply absorb technology from abroad.

Infrastructure

Infrastructure has long been a cornerstone of EU Fund investment, reflecting its foundational role in fostering regional convergence, enhancing connectivity, and supporting economic cohesion. Roughly half of the EU budget is allocated to 'direct investment', much of it aimed at gross fixed-capital formation, especially infrastructure. In 2014, Eurostat estimated this spend at around $54 billion, which represented approximately 15% of total EU direct public investment.

During the 2007–2013 period, the EU Funds supported a wide range of infrastructure initiatives, including:

- Increasing broadband connectivity for 5 million EU citizens
- Modernising water supply systems, benefiting 3.2 million people
- Supporting 9,400 urban development projects to improve sustainability and attractiveness of towns and cities
- Constructing 1,200 km of roads and 1,500 km of railway lines

This emphasis on physical infrastructure – especially in less developed and newly acceded member states – has played a vital role in improving accessibility, reducing regional disparities, and supporting integration into the broader European market.

Yet, the scale of EU investment is still dwarfed by infrastructure needs. Ferrer and Katarivas (2014) argue that funding has been insufficient, citing a €7 billion contribution from the EU budget toward transport, against an estimated €1.8 trillion required to upgrade transport networks across the Union. They conclude that EU budgetary contributions are "essential" if Europe is to meet its long-term infrastructure goals.

The quality of investments, particularly in energy-efficient infrastructure, has also been under scrutiny. Le Den et al. (2017), reviewing EU-funded energy efficiency investments in public and residential buildings during the same programming period, found substantial variation in quality across regions and sectors. Nonetheless, they were broadly optimistic, characterising the 2007–2013 cycle as a learning phase, with valuable insights feeding into future programming.

Moving forward, the EU's commitment to infrastructure is being reshaped by broader strategic priorities. According to the European Commission Factsheet (2020), 65% to 85% of EU Funds in the 2021–2027 period are to be focused on just two core objectives: creating "a smarter Europe" and building "a greener Europe". This entails an increased emphasis on digital and green infrastructure, aligning EU investment with the European Green Deal and broader global climate goals.

This evolution reflects a shift from traditional, growth-driven infrastructure to a more sustainability-oriented model, one that integrates climate resilience, clean energy, and circular economy principles. Infrastructure is no longer just about roads and railways – it's also about smart grids, green buildings, digital connectivity, and climate-proof cities.

Marginalised communities

While the primary responsibility for ensuring the inclusion of marginalised and minority groups lies with national governments, the EU Funds have played an important catalytic role in promoting inclusion and addressing social disparities across the region. Hauser (2014) describes the European Social Fund (ESF) as *"the European Union's key instrument for investing in people,"* highlighting its role in supporting active labour market policies, social inclusion, education, and public administration reform. Similarly, a stated objective of the European Regional Development Fund (ERDF) and the Cohesion Fund is *"increasing the socioeconomic integration of marginalised communities… through integrated measures including housing and social services"*. (EURoma 2018)

Though the financial volume of the EU Funds in this area remains modest compared to national budgets, their role is nonetheless significant. EU Funds tend to act as catalytic investments, prodding national and local authorities toward reforms they might not otherwise prioritise. Kullman (2015) identifies three illustrative examples where EU Funds have successfully driven inclusive structural reforms:

- Improving equity in education in Southern Italy,
- Enhancing employment services in Ireland,
- Facilitating the transition from institutional to community-based care across several EU member states.

Hungary – where Roma communities account for roughly 7% of the population – offers a practical case of how EU Funds are structured to incentivise inclusive public service provision. Funding received under the 2014–2020 period includes:

- Human Resources Development Operational Programme (HRDOP): €2.6 billion, focusing on education and social inclusion;
- Economic Development and Innovation Operational Programme (EDIOP): €7.6 billion, targeting innovation, SME competitiveness, and employment;
- Territorial and Settlement Development Operational Programme (TOP): €3.4 billion, mainly for employment and local development.[21]

Reinhart (2016) charts progress over recent years in terms of policy development for marginalised groups, especially Roma communities. However, he also identifies persistent bottlenecks, particularly in relation to structural discrimination, segregation, and weak accountability mechanisms. Reinhart argues for *"an even stronger role for the EU including through cohesion policy instruments"* to address these gaps.

There are broader lessons here for international development cooperation. One reason EU Funds may be better placed than national budgets to support marginalised communities is that they are perceived as relatively neutral and external, offering a degree of insulation from domestic political biases or prejudices. In contexts where national governments systematically overlook – or actively marginalise – certain groups, external financing with clear inclusion mandates can help shift the incentives and expand political space for reform.

[21] European Commission n.d., 'European Social Fund', available at: http://ec.europa.eu/esf/main.jsp?catId=576&langId=en

This dynamic also raises familiar challenges. There is always a risk of fungibility, where governments reallocate their own resources away from marginalised groups when EU or donor funds step in – a moral hazard concern widely acknowledged in the foreign aid literature. The resolution, as noted in both EU and aid contexts, lies in the context-specific and accountable design of interventions, accompanied by robust monitoring, conditionalities, and community engagement mechanisms.

Moreover, marginalised communities are increasingly recognised as cross-cutting priorities in EU programming. In the current EU budget cycle (2021–2027), the European Commission has introduced a horizontal enabling condition on *"effective anti-discrimination frameworks"* – a legal requirement for Member States to ensure non-discrimination in the design and implementation of EU-funded programmes (European Commission, 2020a). This marks an evolution in the EU's commitment from simply funding targeted actions to embedding inclusion into the broader architecture of public spending.

Finally, the Partnership Principle, strengthened during the 2014–2020 programming period, requires Member States to involve civil society organisations, including those representing marginalised groups, at all stages of EU Fund implementation. While implementation varies across countries, it represents a potential mechanism to amplify the voices of underrepresented groups – a mechanism still underdeveloped in many areas of international aid governance.

Culture

According to a comprehensive study on the role of EU Funds in supporting culture (European Parliament 2012), "Culture is ideally positioned on the cusp of the economic and political spheres of the European project. It creates wealth as in all economic sectors but, in addition, it contributes to creativity, social inclusion and better education. Culture is also a powerful tool to communicate values and to promote objectives of public interest that are broader than wealth creation." This perspective reflects a broader European understanding of culture – not as a marginal or luxury concern, but as a foundational element of social and economic development.

The focus on culture is closely tied to the EU's emphasis on cities and regions as key actors in development. It is often at this sub-national level that distinct cultural identities flourish and where cultural assets – such as heritage, language, artistic production, and creative industries – can be effectively nurtured and leveraged. EU Funds are used not just to preserve heritage but also to promote the economic and social vitality of regions through culture-led regeneration.

For example, in guidance produced to support libraries' access to EU Funds, the European Bureau of Library, Information and Documentation Associations (EBLIDA, 2020) notes that EU Funds promote two main domains of cultural policy beyond traditional understandings of culture (i.e. beliefs, practices, traditions):

1. Cultural content and the creative industries (e.g. publishing, digital content, performance, design), and
2. The instrumental role of culture in broader policy objectives, including urban regeneration, landscape attractiveness, tourism, entrepreneurship, social integration, economic development, and innovation.

Despite culture's multifaceted contribution to development, it has not traditionally been a strong focus of official development assistance (ODA). When ODA has supported culture, it has often been politically controversial or perceived as frivolous. A notable example is the case of *Yegna*, an Ethiopian girl group supported by DFID to promote gender equality through music and storytelling. Despite positive evidence of reach and impact, the group's funding was cut after media criticism suggested it was not sufficiently "developmental" in the traditional sense.[22] Such episodes reveal the difficulty of defending cultural investment in a narrowly framed poverty-reduction discourse.

By contrast, the EU has approached culture as a strategic investment. In the 2007–2013 period alone, it allocated €1.18 billion to the Media and Culture Programme, with an additional €6 billion channelled through the Cohesion Fund to support culture-related activities (European Parliament 2012). These funds supported not only the arts but also cultural infrastructure, heritage preservation, festivals, media production, and innovation in the creative industries. Culture is increasingly recognised as an important part of the "smart specialisation" strategies used to guide regional economic development.

This more expansive view of culture – as both an economic sector and a vehicle for cohesion, identity, and innovation – has significant relevance for international public finance. In many parts of the Global South, culture is one of the most important economic sectors, generating income through tourism, crafts, music, gastronomy, film, and fashion. It is also an important medium for strengthening identity, resilience, and voice – especially among communities facing exclusion or marginalisation. Many cultural landmarks are also considered Global Public Goods.

Yet most development cooperation frameworks still struggle to support culture meaningfully. This is often due to a combination of a narrow results agenda, the difficulty of measuring cultural impact, and the perception that culture is secondary to more urgent needs. However, as the EU's experience shows, investment in culture can be a high-impact, cross-cutting strategy – generating employment, promoting inclusion, supporting youth, revitalising cities, and contributing to sustainable development goals. The 2021 UNESCO report *"ReShaping Policies for Creativity"* reinforces this, calling for a stronger integration of culture in development policy and finance, and pointing to the growing evidence of its contribution to economic diversification, job creation, and social well-being.

If international public finance is to become more effective and better aligned with local realities, a reassessment of the role of culture is overdue. The EU's experience offers valuable lessons on how cultural investments can be mainstreamed, how they can be justified economically and socially, and how they can be embedded within wider development frameworks – not just as expressive activities, but as core elements of economic and social strategy, as well as one that seeks to preserve the cultural heritage for all mankind.

Public services

Public services are not a central focus of the EU Funds. For example, the EU budgeted just $449

[22] See Slawson, N. 2017, 'Ethiopian music scheme Yegna loses UK aid funding after press criticism', The Guardian, 7 January. Available at: https://www.theguardian.com/politics/2017/jan/07/ethiopian-music-scheme-yegna-loses-uk-aid-funding-after-press-criticism

million for health programmes during the 2014–2020 period, a tiny amount when compared with national-level spending and the overall EU budget (Greer et al, 2019). Due to this limited budget, EU-level health financing tends to prioritise knowledge sharing, capacity building, and system coordination rather than direct service provision. However, even this modest support has at times helped shift the policy direction of entire national systems. According to one study, "such European projects have changed the direction of entire national health systems, such as in the case of cancer, by highlighting comparisons" (Briatte 2012). A mid-term evaluation in 2011 found the health programme to be effective in facilitating networking but criticised it for spreading itself too thinly – a perhaps inevitable outcome given the small budget envelope (Public Health and Impact Assessment Consortium, 2011).

Yet the role of EU Funds in supporting public services may be more strategic than quantitative. In their article *"Using Structural Funds for Health Equity: Predisposing Factors and Barriers"*, Neagu et al. (2018) argue that EU Funds should explicitly target health inequalities, recognising both their financial importance and their potential to drive health policy reform. The shift in the 2014–2020 financial framework, with its enhanced emphasis on social inclusion and poverty reduction, created new opportunities for integrating health equity into structural investments.

This opens up an important reflection for the international cooperation community: while the EU's budget for health is modest, the *vision* it articulates has important implications. Rather than focusing narrowly on ending the most acute aspects of health-related poverty – such as maternal or infant mortality, long the domain of international development aid – EU health programmes set out to improve health generally, reduce inequalities, encourage innovation, and protect citizens from serious cross-border health threats. For example, EU money has supported cross-border research into a COVID-19 vaccine[23], underlining the capacity of even modest public investments to catalyse regional cooperation in the face of global crises. The EU's objectives include encouraging collaboration and building resilient, sustainable health systems.[24]

These aims align more closely with the Sustainable Development Goals – particularly SDG 3 (Good Health and Well-being) and SDG 10 (Reduced Inequalities) – than with the narrower targets of the MDG era. The aid community may want to reconsider whether its own programming reflects this broader, systems-oriented agenda.

In contrast to EU Funds, Official Development Assistance from EU countries has traditionally placed a far greater emphasis on financing the social sectors, especially health, education, and humanitarian interventions. These sectors have been the primary recipients of aid from OECD DAC donors for at least three decades. However, this landscape is shifting: recent increases in ODA allocations to productive investments – such as infrastructure, job creation, and private sector development – reflect both changing economic conditions in recipient countries and growing competition from non-traditional donors like China. This is particularly visible in middle-income countries where aid providers are now encouraged to support more complex development transitions.

[23] European Commission n.d., 'EU Research and Innovation on Coronavirus', available at: https://ec.europa.eu/info/research-and-innovation/research-area/health-research-and-innovation/coronavirus-research-and-innovation_en (accessed 9 November 2025)
[24] European Parliament & Council 2014, Regulation (EU) No 282/2014 of 11 March 2014 on the establishment of a third programme for the Union's action in the field of health (2014–2020), Publications Office of the European Union, Luxembourg. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.086.01.0001.01.ENG (accessed 9 November 2025).

The EU's approach to public services may therefore provide a model of strategic intervention rather than volume-based support. Even with limited financial resources, the EU Funds have demonstrated an ability to influence national policy direction, foster cooperation, and support systemic improvements in public health and beyond. The implication for international development is not that more money is needed for public services per se, but that public money should be used more strategically – targeting reforms, innovations, and coordination where they are most likely to yield systemic benefits.

Support to the private sector

The latest European Investment Plan (EIP) marks a significant shift in the EU's financial architecture, placing a much stronger emphasis on using external development aid to support private sector development, infrastructure investment, and on mobilising additional private capital through blended finance and guarantee instruments. This focus reflects a broader trend across international development cooperation, where support to the private sector is seen as increasingly vital to achieving sustainable development outcomes and filling large financing gaps.

Support for business and entrepreneurship has long been a priority area for the European Development Finance Institutions (DFIs) as well, particularly around financial inclusion for women, rural communities, and small and medium-sized enterprises (SMEs). These priorities align with wider donor strategies in recent years, which have increasingly emphasised skills development, job creation, entrepreneurship, and access to finance as foundational to inclusive economic growth.

In the 2007–2013 period, Financial Instruments (FIs), (the EU's term for loans, guarantees, and equity tools), were deployed in three main policy areas (Wishlade & Michie 2016):

1. Support for enterprises (where the vast majority of funds were directed),
2. Urban development, and
3. Energy efficiency

According to Dudka and Lancry (2014), these financial instruments – ranging from guarantees and loans to equity investments – represent "the fruit of a unique alliance of private interests and public policy objectives." By design, they aim to crowd in private investment in pursuit of public goods.

However, aligning public and private objectives is far from straightforward – a challenge well-known across the development spectrum. There are inherent tensions between public mandates for equity, long-term development, and environmental sustainability, and private incentives focused on risk-adjusted returns. These tensions raise both practical and political concerns, especially in cases where risk-sharing arrangements are unclear or where financial returns come at the expense of inclusion or affordability.

One of the most widely cited justifications for using FIs is their potential leverage effect – the idea that every euro of public money invested will attract several more in private capital. Yet, as with the broader "blended finance" debate in international development, it remains difficult to verify how much private capital is actually mobilised, under what conditions, the extent to which public "subsidies" in the form of concessional capital or guarantees are truly needed, and whether such

mobilised capital leads to equitable, sustainable development outcomes.

An ODI-Global report by Samantha Attridge and Lars Engen (2019) highlights a persistent and important finding: leverage ratios tend to be lower in poorer countries than in more developed economies. This has significant implications for where and how FIs are deployed. In fragile or low-income contexts, capital markets are less developed, and private investors are often more risk-averse, reducing the effectiveness of financial instruments as tools for mobilisation.

Future research should examine in greater detail the data collected by the EU and its institutions on actual leverage ratios, disaggregated by geography, sector, and instrument. Such analysis could help build a more evidence-based approach to when and where FIs are most appropriate, and would also help temper expectations about what these tools can realistically deliver, particularly in terms of private sector mobilisation and development impact.

There are also broader governance concerns. The design and management of financial instruments require a high level of technical capacity, market knowledge, and regulatory sophistication. In many low-income contexts – both within and outside Europe – such institutional capacity is still limited, raising questions about whether some of these tools are "fit-for-context" and how best to adapt them.

In conclusion, financial instruments represent an increasingly important – yet complex – tool in the EU's development finance toolkit, blending public goals with market mechanisms. As such, they offer important lessons for the wider aid community, which is also grappling with how to leverage more from less and how to mobilise the private sector without compromising public policy objectives. As international development models evolve, there is a growing need for shared learning between regions like the EU and development finance actors globally, particularly around the design, targeting, monitoring, and evaluation of blended and market-linked finance.

The debate around public-private partnerships that continues to rage in the aid sector is also alive in the EU, as described by Carbonaro et al (2018) who argue that the main challenge *"lies in the need to organise the interface between two complex processes, which are usually planned and implemented independently. Combining them in effective ways poses additional complications related to coordinating the timing of operations and aligning the incentives determining the behaviour of various stakeholders."* As a result, they say, "blended" operations (i.e. combining the PPP approach with ESI funds) have been quite rare, but are likely to increase as debt and guarantee options begin to increase, as these facilitate PPP operations more than grants.

Environmental protection, biodiversity and climate action

Environmental protection, climate resilience and climate action are now central pillars of the European Union's cohesion and investment architecture. Rather than treating environmental sustainability as a discrete policy area, the EU integrates climate and biodiversity objectives across several of its main funding instruments. It also has a series of dedicated environmental instruments. The EU's focus on the environment and climate change has also expanded over time to encompass new and "emerging" environmental thematic areas such as the "blue economy" and "circular economy".

As a sign of the increasing importance the EU attaches to these issues, the European Regional Development Fund dedicates between 65 and 85 per cent of its resources under the 2021–2027 budget to "smart and green" objectives, including low-carbon energy, climate adaptation, circular economy measures and sustainable urban mobility. Parallel support for rural and marine environments is provided through the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime, Fisheries and Aquaculture Fund (EMFAF) to ensure that rural and coastal regions contribute to – and benefit from – the green transition. Introduced under the European Green Deal**,** the Just Transition Fund (JTF) has €19.3 billion allocated for the budget period 2021–2027. It supports territories most affected by the decarbonisation process, aiming to couple environmental imperatives with social equity and employment creation (European Commission, 2023). The Cohesion Fund is also financing low carbon transportation, water and waste management, and air-quality improvement in less well-off EU Member States.

In terms of dedicated environmental instruments, the LIFE Programme is the EU's flagship fund for environment and climate action. The Natural Capital Financing Facility (NCFF) within the Invest EU Programme reflects the increasing focus on innovations to leverage private investment in biodiversity-friendly businesses and green infrastructure.

Similar to EU Funds, Official Development Assistance from the EU and its Member States now how a far greater focus on environmental issues and climate change. In 2023, the European Union and its Member States provided €28.6 billion in climate finance from public sources, representing almost 30% of EU ODA (OECD, 2024). This percentage is also likely to grow further over the coming years.

There is a long literature which raises concerns that climate finance has not been "new and additional" to ODA and that widely critiqued accounting practices blur the two. Often aid donors will argue it is difficult to "disentangle" climate and environmental objectives from development objectives since climate action often delivers development co-benefits: improved resilience, jobs and livelihoods, and enhanced energy access. This practice however has the effect of "shutting out" some of the most climate vulnerable countries in the world from climate and nature-related assistance, such as small island developing states, many of which have higher income per capitas and are ineligible for ODA (Hurley et al, 2024).

Experience from the EU however shows that climate and biodiversity funding can be delivered through a mix of both dedicated environmental instruments and mainstreamed investments across its wider budget. It also shows how EU funding for climate and biodiversity remains relevant and important for high-income countries. For developing countries, the implication of this model is that some countries could retain (or be granted) access to climate and biodiversity focused funding, while remain ineligible for ODA funding focused on, say, the social sectors. This would prevent some countries, particularly SIDS, from facing a "cliff edge" as they graduate from the current "all or nothing" ODA approach.

Emergency response

The EU Solidarity Fund (EUSF)**,** established in 2002, provides rapid financial assistance to EU Member States and accession countries hit by major natural disasters. Since its creation, it has been mobilised over one hundred times, disbursing more than €5.5 billion for earthquakes, floods,

droughts, wildfires, and – more recently – public health emergencies such as COVID-19.

Since 2002, the EUSF has been mobilised more than 100 times. The fund's interventions have included €728 million for the 2002 Central European floods, €494 million for Italy's 2009 L'Aquila earthquake, €360 million for the 2013 Danube floods, €50 million for Portugal's 2017 wildfires, €684 million for the 2020–21 Croatian earthquakes, and over €500 million to help Member States manage the pandemic. Payments are triggered when disaster losses exceed defined thresholds of national GDP, ensuring transparency and predictability. Funds are channelled rapidly through national authorities for emergency repairs, infrastructure restoration and short-term recovery.

Though small in absolute terms, the EUSF demonstrates how pooled European resources can deliver rapid, predictable, needs-based solidarity funding after disasters – a core example of shared financing for public resilience.

Several lessons for international development cooperation emerge. First, its automatic and non-negotiated disbursement rules ensure timely, predictable support without the political delays and uncertainty often seen in bilateral aid when developing countries are forced to approach their donors with appeals for emergency assistance. Second, a rules-based system builds transparency, equity and trust – solidarity is institutionalised rather than discretionary. Finally, the existence of a permanent and mutualised disaster/emergency response mechanism recognises that disasters and emergencies are a recurrent feature of all countries' lived experiences, and that countries at all income levels can benefit from financial and technical assistance. Again, this experience would seem to challenge the dominant ODA model which "graduates" developing countries from ODA eligibility arguing they no longer need external financial support once they become wealthier, even in an emergency. As risk and uncertainty grow with the accelerating impacts of the twin climate and biodiversity crisis and as on-going geopolitical shifts also create increasing uncertainty, there are important lessons from the EU experience about moving away from a discretionary system towards more structured and institutionalised forms of emergency assistance.

Lesson 5: Grants, not loans

Most assistance from the EU Funds is provided in the form of non-repayable grants. This is especially striking given that, as countries in the Global South increase their income levels, they are often told they must "graduate" from grant-based support to non-concessional loans, in line with dominant international development finance norms. Yet many EU countries receiving these grants – including net recipients like Poland, Romania and Greece – are already well into high-income status, or are on the cusp of it.

In much of the global aid architecture, it is commonly assumed that the shift from grants to loans is inevitable with economic growth. This is based on a logic that grants are for the poorest and most vulnerable, while loans are for more bankable investments. In the ODA system, graduation thresholds based on GNI per capita codify this idea, even when pressing social, environmental or infrastructural needs persist.

The EU Funds experience challenges this assumption. It shows that even relatively wealthy countries can benefit productively from grants, particularly when the goal is to tackle persistent regional disparities, invest in public goods, including infrastructure, and promote cohesion. Despite a growing interest in so-callled "financial instruments", these remain relatively limited in scale. In the 2014–2020 programming period, financial instruments made up just around 5% of total European Structural and Investment Fund allocations, according to the European Court of Auditors (2022). By comparison, grants accounted for 95%, reinforcing their continued centrality.

This mirrors the earlier MacDougall Report (1977), which stressed the role of grants for both general and specific purposes within a functioning economic and fiscal union. It described grants for fiscal equalisation to enable poorer regions to provide equivalent levels of public services without excessively high local taxation, preserving autonomy and avoiding structural inequality. On the other hand, matching grants were seen as a tool to incentivise local or national spending in areas with positive externalities, such as education, regional development or infrastructure that benefitted more than one locality.

Nicolaides (2018) adds an interesting insight, noting that grants – even to wealthier jurisdictions – may create stronger incentives to deliver project success, especially when recipients perceive ownership and alignment with local priorities. This has important implications for international public finance. If wealthier EU countries can still receive grants to support sustainability, cohesion, and innovation, why should middle-income countries outside the EU be limited to loans, especially for investments in global public goods (like climate mitigation, pandemic preparedness or biodiversity protection)?

Indeed, grants may be even more effective in countries with stronger institutions, where transaction costs are lower, absorptive capacity is higher, and systems are more likely to translate funds into lasting impact. Existing aid effectiveness literature supports this: ODA tends to be more impactful in stable, well-governed countries, even if their objective poverty levels are lower (Burnside & Dollar, 2000; Gisselquist, 2012).

There is also a mobility argument. As MacDougall noted, in a highly mobile society, benefits from

certain types of public investment – like education or environmental protection – often spill over beyond the locality or even country in which they occur. In a globalised world, the same logic holds: many development investments (e.g., emissions reduction, climate resilience, epidemic control, biodiversity conservation) yield transboundary benefits. These investments should not depend solely on domestic fiscal space or ability to repay.

This raises a fundamental question: should the logic behind the EU's internal use of grants now inform global thinking? Might the time be ripe for the international system – especially the multilateral development banks and bilateral donors – to revisit the role of grants across income levels and uses?

Research comparing how the EU uses grants within and beyond its borders could be revealing. Externally, the EU often supports similar sectors (governance, climate, inclusion), but does so under a different framework, constrained by ODA norms. Internally, it recognises the value of permanent fiscal transfers to promote cohesion and shared resilience. Could the EU champion a more flexible, layered system of grants, concessional loans, and hybrid instruments globally – not based solely on income level, but on the nature of the investment, the level of externality, and the institutional readiness of the recipient?

Loans and equity

The volume of the EU budget going to financial instruments (FIs) – including loans, guarantees, and equity – has steadily increased over recent decades. The estimated amount allocated from Structural Funds to venture capital, loan, and guarantee funds rose from just €0.57 billion in 1994–99 to €1.2 billion in 2000–2006. In the 2007–2013 programme period, this increased to €8.36 billion, and it grew further in the 2014–2020 period, with particular emphasis on support to SMEs (Dudka and Lancry 2014). This represents a small but growing share of the EU budget.

As Bode (2016) observes: *"In times of shrinking public budgets, alternative forms of public support other than non-repayable grants have come under the spotlight. This is particularly true for Cohesion Policy, where the use of financial instruments has grown steadily over the last two programming periods, both in terms of the absolute numbers of instruments and resources, with a further increment in terms of value, and of the percentage of the total budget available for the current 2014–2020 period."*[25]

This shift reflects a broader transformation across EU policy, including its external development financing. Under the External Investment Plan (EIP) and now the European Fund for Sustainable Development Plus (EFSD+), the EU has increasingly deployed instruments such as guarantees, subordinated loans, and equity, aimed at mobilising private capital for development objectives. By

[25] These include: Legal framework (Delays in shaping the legal framework, Complexity of rules, Rules not sufficiently binding); Definitions of performance measures and their achievement (Lack of uniform definition of leverage, Low leverage rates / no leverage targets, Low disbursement rates); Needs assessment and proper fund endowment (No requirement for gap/needs assessment, Low quality of gap/needs assessment (if conducted), Unjustified allocations to FIs, Regional dimension and scattering effects); Eligibility conditions (Unjustified preferential treatment, Unclear eligibility conditions for working capital, Eligibility of capitalised interest rate subsidies or guarantee fee subsidies without legal basis, Eligible expenditure without actual risk); Management and control system (Insufficient reporting requirements, Unclear control system for legacy, Late audits of compliance with eligibility rules Insufficient and improper performance measurement indicators); Management costs and fees (Lack of transparency, Additional charged costs, High level of costs compared to benchmarks in private sector and to centrally managed instruments, No clear rationale for thresholds, Possibility of circumvention of thresholds, No variable parts/no performance remuneration); Legacy (Too much flexibility in reuse of funds until and after end of eligibility period); Other (Lack of experience and know-how, Delays in implementation of FIs, Unclear rules on the selection of financial intermediaries)

2023, the EU reported that over €5.3 billion in EFSD+ guarantees had been approved, expected to leverage €52 billion in total investment across Africa, the Neighbourhood, and Asia.

This shift is mirrored by the Global Gateway initiative – the EU's flagship response to global infrastructure needs. Backed by €300 billion in planned investments by 2027, Global Gateway combines EU grants, EFSD+ guarantees, and funding from national DFIs such as KfW (Germany), AFD/Proparco (France), CDP (Italy), FMO (Netherlands) and the European Investment Bank. These efforts aim to support everything from energy transition in Africa to digital corridors in Asia and transport connectivity in Latin America.

However, as in the internal EU Funds, challenges remain. As Wishlade & Michie (2016) note, many financial instruments suffer from:

- insufficient pipelines of bankable projects,
- underdeveloped intermediary networks,
- weak monitoring and reporting,
- difficulty in achieving crowding-in of private investment

Bode (2016) also notes a "long list of operational and design issues" related to financial instruments – including legal uncertainty, coordination and competition problems between actors, and high transaction costs.[53]

This mirrors challenges in the development sphere. In many lower-income countries, the financial ecosystem is not yet mature enough to support complex financial instruments. Private sectors are weak, markets are thin, and there is a lack of technical capacity to understand or absorb sophisticated products like subordinated debt or blended equity. Such complex arrangements are also time consuming to design and agree, lengthening project preparation times, and adding to the risk that projects "won't make it over the line". This makes it harder to achieve the leverage ratios often promised in project documents. As studies from the OECD, ODI, and UNCTAD have repeatedly pointed out, blended finance tends to underperform in the poorest and most fragile contexts.

That said, some promising examples of equity-led approaches are emerging. European DFIs such as BII (UK), Proparco, and FMO have been central in developing the equity ecosystem in Africa, South Asia, and parts of Latin America. In countries where high-growth SMEs exist but struggle to attract investment, DFIs have helped seed equity funds that now crowd in commercial capital.

The EU itself is also making cautious moves into equity through its co-investment model, which retains flexibility in selecting private partners while absorbing a portion of the risk. As one evaluation put it: *"The model has all the benefits of attracting private investors, but retains flexibility when selecting who these investors are."*

Pros and cons of non-grant instruments

Increasingly – although still in relatively modest volumes – the EU Funds are also being used in combination with "financial instruments" within the EU. Most FIs co-financed under EU Fund programmes are delivered as loans or guarantees, with only a small proportion deployed as equity, typically targeted at high-growth or innovation-intensive firms.

Beyond the obvious advantage of enhancing the sustainability and recyclability of financial support, FIs are valued for the different incentives they generate, due to the need for repayment. As Nicolaides (2018) points out, this often leads to more disciplined project selection and implementation. According to a representative from Poland's National Development Bank, FIs allow for a *"much wider scope of intervention as compared to grants."* The fact that repayments can be recycled into future projects also increases their appeal, while guarantees, in particular, allow for significant leverage effects, enabling governments to do more with less. (Hann, 2018)

This has made FIs attractive in sectors such as urban regeneration, energy efficiency, and SME development. Alexander Rose (2018) of the UK's Department for Communities and Local Government noted in 2018 that: *"Financial Instruments are very attractive to Member States interested in investing in regeneration because they generate returns, so the initial investment can be recycled towards regeneration aims several times."* Similarly, Nicolaides (2018) concluded that:*"Financial instruments used in the context of 'risk finance' measures are more useful than grants when their objective is to provide working capital to SMEs."*

A variety of EU-level instruments have illustrated this logic in practice. The Structural Programme Loans (SPLs) from the European Investment Bank (EIB), for example, blend public or private finance with EU grants to maximise leverage and scale. Ottersten & Sioliou (2014) found that the technical and sectoral expertise of the EIB adds considerable value to such blended investments, both in design and implementation. The Loan Guarantee Instrument for Trans-European Transport (LGTT) is another widely cited example: with a €400 million seed fund (half from the EU budget, half from the EIB), the instrument mobilised €12 billion in capital by 2012 (Ferrer and Katarivas 2014).

However, alongside these strengths, a number of challenges and downsides have been well-documented. One of the most persistent concerns is lack of flexibility, coupled with high administrative and compliance costs, particularly related to complex reporting and audit requirements. Management costs and fees can also be significant – especially for smaller funds (Hann, 2018).

Dudka and Lancry (2014) highlight that FIs *"require appropriate size, access to sufficient deal sourcing, investors, and experienced management teams,"* conditions that are not easily met at sub-national or local levels, especially in less developed regions. These same constraints apply in the international development sphere, where Development Finance Institutions frequently report difficulty in identifying "investment-ready" opportunities in low-income and fragile settings. These structural challenges partly explain the slow deployment of the EU's EFSD (now EFSD+) guarantees, despite high expectations. As Dudka and Lancry explain: *"Significant economies of scale and efficiencies can also be gained by implementing a smaller number of large funds rather than a large number of small funds."*

To address these concerns, a number of reforms were introduced for the 2014–2020 programming period, including (Wishlade & Michie 2016):

- Expansion of eligible policy areas for FIs;
- Requirement for ex-ante assessments to determine appropriateness of instruments;

- Stricter limits and harmonised methodologies for setting management fees;
- Improved and standardised reporting obligations;
- Availability of "off-the-shelf" FIs – pre-approved models with uniform terms to simplify implementation;
- Establishment of a dedicated technical assistance platform, providing guidance on fund design and execution across the entire project cycle

Yet, as of today, it remains unclear whether there are definitive lessons for the broader aid system from the EU's growing but still relatively cautious use of financial instruments. Much like in the international context, the EU's learning process around FIs is ongoing. As both the internal EU Funds and external development cooperation increasingly deploy hybrid financial tools, there is a strong case for more joint research between domestic cohesion policy practitioners and global development experts.

What's needed is not just more data, but also more granular understanding of:

- When FIs outperform grants;
- In what policy areas and contexts they add most value;
- How to structure incentives and partnerships for high-impact public-private collaboration;
- What capabilities need to be in place – institutionally and financially – for effective design, delivery, and monitoring.

As the EU and its member states continue to expand Global Gateway, EFSD+, and hybrid financing platforms, this learning will be critical both for internal cohesion and external cooperation. Indeed, the challenge is not just financial innovation, but making sure innovation serves inclusive, sustainable development goals rather than simply replicating investment logic in settings that cannot yet support it.

Innovative Financing

The EU is innovating in the use of public money in ways that could offer valuable lessons for international development finance. By leveraging regional funds in new modalities, the EU Funds have helped test, refine, and scale financial innovations that might also be useful in global development contexts.

One example is highlighted by Clermont & Fionda (2016), who examine the use of Research Units as a financial instrument to promote research and innovation. These units are designed based on a detailed analysis of weaknesses and bottlenecks in regional R&D ecosystems. They aim to stimulate collaboration between companies focused on applied research and product development, and public research centres undertaking fundamental research with no immediate market application. This modality has proven effective in building R&D capacity in regions where collaboration and securing co-financing has been historically weak. In doing so, EU Funds have not only strengthened innovation ecosystems but also fostered longer-term partnerships that could have spillover effects across sectors.

Another example of innovative financing is described by Herceg et al. (2019), who assess a forest restoration and demining programme in Croatia funded by the EU. The programme, valued at around EUR 50 million, covered salaries and direct restoration activities. Importantly, it applied a

relatively new financing modality called Simplified Cost Options (SCOs). Given the complexity of activities – many of which involved small transactions and a dispersed implementation structure – SCOs proved particularly effective. They helped reduce the administrative burden on beneficiaries, minimised the risk of irregularities, and allowed project implementers to focus more energy on delivery rather than compliance. Such modalities could have significant potential in development contexts where administrative capacities are similarly stretched.

The InvestEU website features a wide range of additional examples of how EU Funds are being used to promote innovation, particularly in the green economy. Projects include the development of green batteries, drones that combat marine litter, and a "smart air filter made of moss" that improves urban air quality. These are not only imaginative uses of concessional finance but also reflect a broader EU strategy to crowd in private capital and fund innovation, while promoting environmental sustainability.

One particularly relevant initiative is BlueInvest, a platform that uses EU Funds from the Maritime and Fisheries Fund to *"boost innovation and investment in sustainable technologies for the blue economy."* BlueInvest focuses on supporting early-stage businesses, SMEs and scale-ups with access to finance and investment readiness support in areas such as sustainable aquaculture, marine biotech, and ocean energy (European Commission, 2019).

Together, these initiatives represent a new generation of EU financing tools aimed at unlocking innovation, boosting sustainability, and supporting inclusive regional development. What stands out is that these modalities combine risk-sharing, flexibility, and technical assistance to empower recipients, many of whom lack access to traditional forms of finance.

Could the EU now go a step further and build something similar – along the lines of InvestEU and BlueInvest – targeted toward partner countries? This could take the form of an EU-led reflection or innovation lab on concessional financing in external cooperation, grounded in its experience managing EU Funds internally. Such an initiative could catalyse new thinking in global public finance, offering smarter and more adaptive models for development funding in the Global South.

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The experience of EU Funds shows that financial instruments can complement – but not replace – grants, and that their use must be context-sensitive. Where governance is strong and institutions solid, loans and equity can work well. In less mature markets, their usefulness is more limited, especially without substantial technical assistance and risk mitigation. These add to the costs of projects.

Moreover, the success of financial instruments relies not just on money but on architecture: coordination mechanisms, multi-year planning, and policy coherence. These are features of the internal EU model that have not yet been replicated in external cooperation. If financial instruments are to be scaled up globally, they must be embedded in robust frameworks of accountability, partnership, and strategic alignment – otherwise, their risks may outweigh their rewards.

Lesson 6: Multi-level and territorial governance

A defining characteristic of the EU Funds model is its explicit territorial approach. It is not only concerned with inequality between countries but also with disparities within countries – between cities and rural areas, dynamic and lagging regions, and across borders. One of the most enduring contributions of the MacDougall Report was its recognition of regional inequalities within member states: in 1977, it identified 72 sub-regions in the then nine-member European Community. Its consistent concern was the "reduction of differences in average living standards between regions," which has remained a guiding principle ever since.

Four decades later, this vision remains at the heart of EU cohesion policy. As one 2016 EU brochure noted: *"In the Treaty of Lisbon, the European Union's Member States undertook an obligation 'to promote the Union's overall harmonious development'. In particular, the aim is to lessen the differences between the various regions' respective development levels and also to reduce the gap separating the most severely disadvantaged regions from the others. Reaching this goal requires money, of course… and a lot of it." (European Commission, 2016)*

In the 2014–2020 period, the regulatory framework emphasised the growing importance of cities, sub-national governance, and cross-border cooperation. For instance, at least 5% of the European Regional Development Fund (ERDF) was earmarked for Sustainable Urban Development, with spending decisions delegated to the cities themselves (van der Zwet and Bachtler 2018). This built on the 1988 reforms, which formalised the partnership principle, ensuring "close cooperation between the European, national and sub-national authorities and bodies involved in the entire policy process." According to Bollen (1999), *"regional and local authorities, as well as economic and social partners and various interest groups… have increasingly established direct links with the European Commission"* for the design and implementation of programmes.

This territorial approach takes different forms. Locally-led, urban and sub-regional planning is now matched by efforts to strengthen macro-regional and cross-border collaboration, including in service delivery. The Integrated Territorial Investments (ITI) and Community-Led Local Development (CLLD) mechanisms offer cities and regions new powers and responsibilities, especially where national programmes have had limited impact in marginalised areas.

Examples abound. Dall'erba and Le Gallo (2004) found positive effects from EU Funds (1989–1999) on convergence across 145 regions, especially where transport infrastructure was the focus. In the 2014–2020 period, London and Cornwall were allocated €745 million and €603.7 million respectively for ITIs (Miller and van der Zwet 2018). In London, efforts focused on neighbourhood-level skills and employment initiatives. In Cornwall, a region still classified as "Less Developed," investments targeted digital connectivity and renewable energy.

The experience of the University of the Highlands and Islands (UHI) in Scotland, described by Stewart (2015) as *"one of Europe's most innovative models of further and higher education,"* illustrates the lasting impact of regional investment. EU Funds helped establish UHI, which has had transformative effects on the region's economic and social landscape.

This approach is not limited to urban centres. The EU sees its Funds as a complement to rural

development policies. According to Loriz-Hoffman and Rosenow (2014), EU funds help address rural challenges by simplifying rules and strengthening strategic planning. Licciardo (2019) documents how the European Agricultural Fund for Rural Development (EAFRD) – with a €96 billion budget for 2014–2020 – helps address market failures in agriculture, notably in Italy. It supports both structural improvements and long-term resilience in rural regions.

Addressing urban marginalisation is equally central. For Fotino (2014), the "widespread presence of urban areas suffering from difficult social and economic conditions" remains a core challenge. These are mirrored in many fast-growing secondary cities in the Global South, where ODA needs to engage more meaningfully. The EU's JESSICA programme, for instance, aimed to promote sustainable investment in city areas. Hamza (2017) argues that despite some vagueness in objectives, JESSICA succeeded in enhancing the attractiveness and competitiveness of localities. Atkinson (2015) makes a broader point: cities should not be treated as passive beneficiaries but as active actors in the Acquis Urbain, the EU's emerging urban policy framework.

Poland offers a compelling case. Between 2014–2020, it allocated €3.5 billion in EU grants and added €2.5 billion of its own funds to support Integrated Territorial Investments and Sustainable Urban Development (Ferry & Borkowska-Waszak 2018). The priorities – low-carbon growth, education, SME competitiveness – were tied to governance reforms and stronger inter-municipal coordination, areas where Poland had faced persistent institutional challenges.

The role of regions is growing in importance. A 2018 World Bank report projected that Romania, Poland, Hungary, and Bulgaria would soon overtake lagging regions in Italy, Spain, Portugal, and Greece. The report, *Rethinking Lagging Regions*, called for "an even stronger orientation toward the regions as the architects and implementers of regional programs," supported by technical assistance and institutional strengthening. These insights are highly relevant for international development, where similar capacity gaps persist at the subnational level.

EU Funds also address socio-spatial segregation, a growing issue in European cities. Colini & Czischke (2015) argue that the EU can act as a neutral and effective actor to counter rising urban inequalities – caused by reduced social investment, weakened housing policy, and urban planning failures. This too resonates with global urban development efforts.

At the supra-national level, macro-regional strategies – such as the 2009 EU Strategy for the Baltic Sea Region (EUSBSR) – aim to solve cross-border challenges through cooperation without creating new institutions, legislation or funds (Roggeri 2015). Similarly, cross-border cooperation (CBC) programmes fund joint socio-economic initiatives. An evaluation by Mijacic & Zarkovic (2017) found that civil society organisations (CSOs) were especially effective at bridging gaps between stakeholders and enhancing trust across borders – an insight relevant to regional development and peacebuilding globally.

In the Iberian Peninsula, Medeiros (2018a) found that while EU Funds modernised infrastructure and human capital, ongoing challenges reflected wider governance and policy gaps. Still, he concluded that EU Cohesion Policy played a crucial role in territorial transformation – despite inefficiencies and strategic gaps.

Territorial approach in the international development context

The territorial approach is being mirrored, to a limited extent, in international development – cities and municipalities are increasingly seeking the ability to raise their own financing (notably via municipal bonds) and to become direct recipients of ODA. There has also been growing interest in the development of "smart" cities. The OECD (2015) recognised the sub-national nature of fragility and called for sub-national targeting of ODA to areas of specific need. Similarly, UNDP argued for moving *"beyond a state-based allocation model to one focused on sub-national measures of need and vulnerability",* noting that improvements in data would be necessary to inform such targeting decisions (UNDP, 2016). A report by ODI and Development Initiatives deepens this critique, showing that despite major inequalities within poor countries – and the fact that wealthier regions often receive more public spending per capita – aid donors are still failing to target aid effectively at the sub-national level (Stuart et al, 2016).

Access to finance is one of the most significant barriers that city leaders face in delivering their development plans. Implementation capacities also tend to be weaker at city and sub-national level. In developing countries, local taxes account for just 2.3% of GDP, compared to 6.4% in industrialised countries. Only 4% of 500 cities in low-income countries have access to international capital markets. Additionally, there is not only a lack of financial resources but also a shortage of expertise in securing and deploying investment successfully for infrastructure projects (Hurley, 2016).

Within Europe, however, territorial policy has long been mainstreamed into development programming. Although European Territorial Cooperation has been one of the main objectives of EU Cohesion Policy since 2007, it has never received more than 3% of the total cohesion budget (Medeiros, 2017). Medeiros argues that the EU should move from a *"nationally driven EU Cohesion Policy"* design and implementation rationale toward a "transnational driven" rationale, which he sees as more aligned with the cross-border and regional nature of many current challenges.

The EU has also emphasised decentralised planning and implementation, especially in its 2014–2020 and 2021–2027 programming periods. One aim has been to give more weight to the role of cities and territories, with a particular focus on fostering sustainable urban development through integrated territorial strategies. For example, a minimum of 5% of ERDF funding was required to be allocated to Sustainable Urban Development, with implementation responsibilities delegated directly to cities (van der Zwet and Bachtler, 2018). The 1988 reforms to Cohesion Policy established the partnership principle, mandating close cooperation between European, national, and sub-national authorities and social partners. According to Bollen (1999), this has resulted in deeper involvement of regional and local authorities and more direct relationships between them and the European Commission.

This decentralised funding structure has allowed regions to tailor development strategies to their specific needs. London and Cornwall, for example, were allocated €745 million and €603.7 million respectively in the 2014–2020 period under Integrated Territorial Investments (ITIs) (Miller and van der Zwet 2018). In Cornwall – the only region in England categorised as "Less Developed" – the funds focused on growth areas like digital infrastructure and renewable energy. In London, the emphasis was placed on employment and skills. Stewart (2015) describes how EU Funds helped

create the University of the Highlands and Islands (UHI) – a transformative model of higher education that has provided lasting economic and social benefits to the region.

EU Funds also support rural development. Loriz-Hoffmann and Rosenow (2014) note that the European Agricultural Fund for Rural Development (EAFRD), with a budget of EUR 96 billion for 2014–2020, aims to address market failure in agriculture and promote rural resilience. Licciardo (2019) explores how the EAFRD contributes to long-term rural development in Italy by co-financing infrastructure, capacity-building, and innovation.

Fotino (2014) identifies urban inequality and economic exclusion as a critical challenge across European regions – a challenge familiar to many fast-growing Southern cities. EU Funds support initiatives such as the Joint European Support for Sustainable Investment in City Areas (JESSICA), aimed at revitalising disadvantaged neighbourhoods. Hamza (2017) acknowledges that while urban development outcomes are often hard to quantify, the funds do help make cities more attractive and functional. In Poland, for example, EUR3.5 billion in EU grants (2014–2020) were matched with EUR2.5 billion in national co-financing for ITIs and Sustainable Urban Development (SUD) strategies. These were closely tied to low-carbon transitions, SME competitiveness, and education. Crucially, they also aimed to improve multi-level governance, especially in contexts where traditions of inter-municipal cooperation are weak (Ferry & Borkowska-Waszak, 2018).

At a broader scale, macro-regional strategies like the 2009 EU Strategy for the Baltic Sea Region (EUSBSR) illustrate how EU Funds are being used to foster cross-border cooperation. These strategies aim to solve shared regional challenges without additional legislation, structures, or dedicated funding – a "no" principle model (Roggeri, 2015). Mijacic & Zarkovic (2017) find that civil society organisations often play a key role in these programmes, acting as brokers to bridge gaps between public and private sectors across borders.

In parallel, the World Bank (2018) has warned that the "economic hierarchy" of EU regions is shifting. Its report *Rethinking Lagging Regions* predicts that some of the poorest regions in Romania, Poland, and Bulgaria may soon overtake lagging areas in Italy, Portugal, and Greece. The report urges a more regionally led model of policy and investment, echoing calls from the EU itself for "an even stronger orientation toward the [EU] regions as the architects and implementers of regional programs."

Colini & Czischke (2015) warn that EU Funds must do more to address socio-spatial segregation, especially in cities, arguing that the EU's role as a perceived neutral actor positions it well to do so. Finally, Medeiros (2018a), reviewing EU Cohesion Policy's impact in the Iberian Peninsula, finds significant progress in human capital and infrastructure, despite ongoing governance challenges.

The EU's territorial and multi-scalar model offers critical insights for the international development community. A deeper, decentralised approach to place-based investment, backed by multi-level governance and flexible funding, may be essential to achieving locally-owned and locally-driven sustainable development in diverse geographies worldwide.

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The EU Funds offer compelling lessons for the future of global development finance – particularly around the potential of sub-national and supra-national governance structures to drive meaningful, context-specific progress. In much of the Global South, national governments often struggle to deliver services or investments equitably across territories, and remote regions or secondary cities are frequently left behind. The EU model shows how decentralised financing, paired with strong regional partnerships, strategic co-financing, and long-term institutional support, can help empower local actors and help narrow these spatial disparities.

Crucially, this also demands a shift in donor thinking – from viewing countries as unitary recipients to recognising the complexity and diversity within them. Global public investment frameworks could borrow directly from the EU's tools like Integrated Territorial Investments (ITIs), Community-Led Local Development (CLLD), and macro-regional strategies to better engage with cities, rural areas, and border regions. Ultimately, the EU experience challenges global development actors to rethink how and where concessional finance is delivered – not just to countries, but to the people and places that need it most.

Conclusion: towards global public investment

In this study, we have explored the European Union's system of Structural and Investment Funds with the aim of drawing lessons for broader international public finance and cooperation. We have reached two broad categories of conclusions.

The first is general. There is a surprising lack of cross-fertilisation between two substantial and long-standing literatures – on EU Funds and on international development cooperation. Across a wide range of issues, from governance effectiveness to innovative financing, from conditionalities to the role of grants, and from sub-national delivery to mutual accountability, both communities of practice have been innovating in parallel. And yet, they have rarely engaged with one another. At a time when both systems face new pressures and demands, the case for greater exchange and learning across these fields is stronger than ever.

The second category is more specific. On seven areas of practice, this paper has argued that international cooperation could usefully draw from the experience of the EU Funds. Some of the differences are structural – such as the EU's unique membership model – but others are more flexible, such as the kinds of financial instruments used or the way thematic priorities are defined. While it is clear that replicating a regional integration project like the EU is neither possible nor desirable globally, many of the core ideas and tools embedded in the EU Funds model – such as mutual accountability, co-financing, long-term planning cycles, and embedded conditionalities – could offer fresh inspiration for a 21st-century international public finance system.

This is especially relevant in 2025, a year already marked by uncertainty in the international cooperation system. Multilateralism is under strain, aid budgets are being cut or redirected in many countries, and debates about the future of concessional public finance are intensifying. Meanwhile, the global landscape of development finance is shifting rapidly: middle-income countries are now the norm, private capital flows have overtaken ODA, and new institutions and models – especially from the Global South – are gaining prominence.

Within this context, the EU Funds experience offers a useful counterpoint to the traditional aid narrative. In the EU model, there is no "graduation" from concessional support based on income thresholds. Countries well above the global median income – such as Poland, Portugal, or even Germany – continue to receive substantial grant support to promote convergence, resilience, and long-term development. The idea that grants are only for the poorest, or that loans are the inevitable next step, is not borne out in this system. Yes, financial instruments have grown in importance, but they remain a complement to – not a replacement for – grants.

Might a version of this approach be applicable beyond the EU? Could international public finance be reimagined as a system of mutual investment in shared development, rather than a temporary act of charity from North to South? Could some of the governance principles behind the EU Funds – such as co-decision making, ex-ante conditionality, or multilevel partnership – be adapted to regional or global scales?

This is not to suggest that EU-style cohesion policy can be copy-pasted into international development. Global governance lacks the coherence, legal infrastructure, and shared political

identity that make the EU model possible. Yet that is precisely what makes this reflection urgent. If global cooperation is to meet the challenges of the SDGs, climate change, biodiversity breakdown, digital inequality, and global health threats, it must become more structured, more predictable, more accountable – and more effective.

In that sense, the EU Funds may offer the broad brushstrokes of a different approach: one based on investment rather than charity; on shared interest rather than one-sided obligation; on long-term strategic planning rather than fragmented project cycles; and on robust accountability systems designed for mutual learning, not top-down control.

As the traditional aid paradigm is increasingly questioned, the future of concessional public finance remains unresolved. What role will public money play in an era where private finance is increasingly mobilised, but not always aligned with public goals? What makes public concessional finance distinct, and how can it be best targeted to meet shared global objectives?

The world in 2025 faces not just a financing gap but a conceptual gap: a lack of clear, agreed principles for how international public finance should evolve in an age of interdependence, risk, and opportunity. The EU Funds experience does not offer all the answers – but it does offer a rich and underexplored repository of ideas, mechanisms, and approaches. This paper has aimed to open that toolbox for global reflection.

The task ahead is to take this reflection further: to test what works, to explore what might transfer, and to co-create a new, shared architecture for financing sustainable development in a deeply unequal and uncertain world.

Evolving vision and practice

Importantly, the EU Funds are still evolving. A major turning point in their development came with the enlargement of the European Union around the turn of the millennium. The accession of ten new member states in 2004 – many of them with GDPs significantly below the EU average – prompted both a substantial increase in available funding and a fundamental reassessment of purpose. What had previously been a mechanism for helping a small number of poorer "cohesion countries" (Greece, Ireland, Portugal, and Spain) now had to become a system capable of supporting large-scale economic transformation in a much broader and more diverse Union.

Bachtler and Downes (2002) noted at the time that it would take 25–30 years for most of the new member states to reach even 75% of the average GDP of the EU-15, highlighting the scale and ambition of the task. This challenge catalysed institutional and policy innovation and required the EU Funds to grow not only in size but in sophistication. Alongside redistributive goals, new objectives emerged: enhancing competitiveness, supporting knowledge economies, and addressing demographic and climate pressures.

Zuber (2013) captures this pivotal shift, describing it as a radical change of paradigm: *"Traditionally, cohesion policy focused on the delivery of European financing to poorer regions in order to help them to catch up with those more developed. The new approach aims at providing additional investment opportunities for exploiting the development potential of various types of territories, in order to better contribute to the achievement of EU-wide objectives as defined in the*

European growth strategy Europe 2020."

This new formulation – linking local and regional investment to collective European goals – resonates powerfully with a similar shift taking place at the global level just two years later: the move from the Millennium Development Goals (MDGs) to the Sustainable Development Goals (SDGs). That shift, from poverty-targeted aid to universal, shared commitments, laid the intellectual groundwork for a new paradigm in international cooperation – Global Public Investment (GPI).

Next steps

This study has shown that while the EU is a uniquely integrated political and economic union, its Structural Funds nonetheless offer a set of usable principles for rethinking how international public finance might operate in a more interdependent, multipolar era. As global development finance enters a period of constrained fiscal space, widening spatial inequality, and mounting global public goods demands, there is a clear need to move from conceptual debate to institutional design and practical experimentation.

We therefore propose the following five next steps:

1. *Deepen comparative research between EU cohesion instruments and global aid models*

Although parallels between EU cohesion policy and international development finance are increasingly recognised, comparative research is still limited and fragmented. A coordinated programme of research should examine where EU-style mechanisms—shared governance, multi-annual programming, performance frameworks, co-financing—could translate directly, where adaptation is required, and where lessons do not apply. This requires interdisciplinary work bridging development finance, federalism studies, decentralisation, and fiscal equalisation.

2. *Design and test pilot initiatives in other regional blocs*

Elements of the Structural Funds model—pooled funds, rules-based disbursement, and region-wide investment strategies—could be adapted in regional contexts such as the African Union, ASEAN, MERCOSUR or the Caribbean Community. Pilot projects should be developed collaboratively with regional development banks and ministries of finance, focusing on territorial cohesion, shared industrial policy objectives, and resilience investment.

3. *Strengthen the narrative foundations of mutual benefit and Global Public Investment*

A shift away from donor–recipient logic requires a persuasive narrative architecture grounded in shared interests, reciprocity, and the production of global public goods. The EU Funds demonstrate how solidarity and self-interest can be aligned through sustained, rules-based public investment. This insight should feed directly into ongoing work to articulate a Global Public Investment (GPI) paradigm for the international system.

4. *Explore membership-based global and regional funds where all countries contribute and benefit*

The EU model illustrates the strategic power of universality: every member both pays in and is eligible to receive support based on jointly agreed priorities. Global development finance has largely never operated on these terms. A priority is to explore the feasibility—technically and

politically—of membership-based funds that redistribute according to objective need, capabilities, and shared goals rather than historical hierarchies.

5. Expand sub-national financing pathways within global cooperation

Development and inequality are profoundly territorial. Cities, regions and local authorities are central to climate adaptation, economic transformation, and social cohesion, yet remain structurally under-financed. Drawing from the EU's territorial approach, new mechanisms are needed to channel international public finance directly to sub-national actors, supported by improved data, capacity, and accountability arrangements.

Taken together, these steps outline a practical reform trajectory for a system of global cooperation that moves beyond charity, beyond conditionality-as-discipline, and towards shared investment in shared futures. The EU Funds do not offer a blueprint. But they do offer proof of possibility: that long-term, rules-based, multi-country public investment can be politically acceptable, economically productive, and socially cohesive.

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