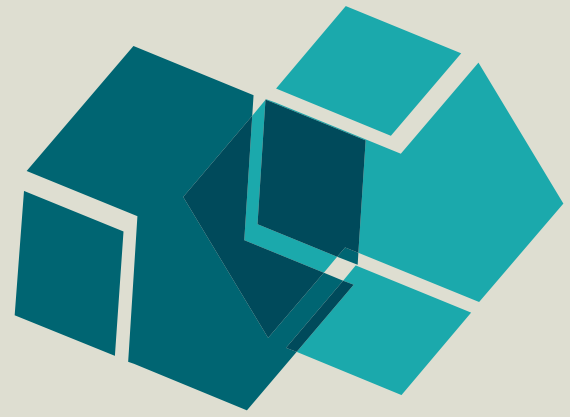


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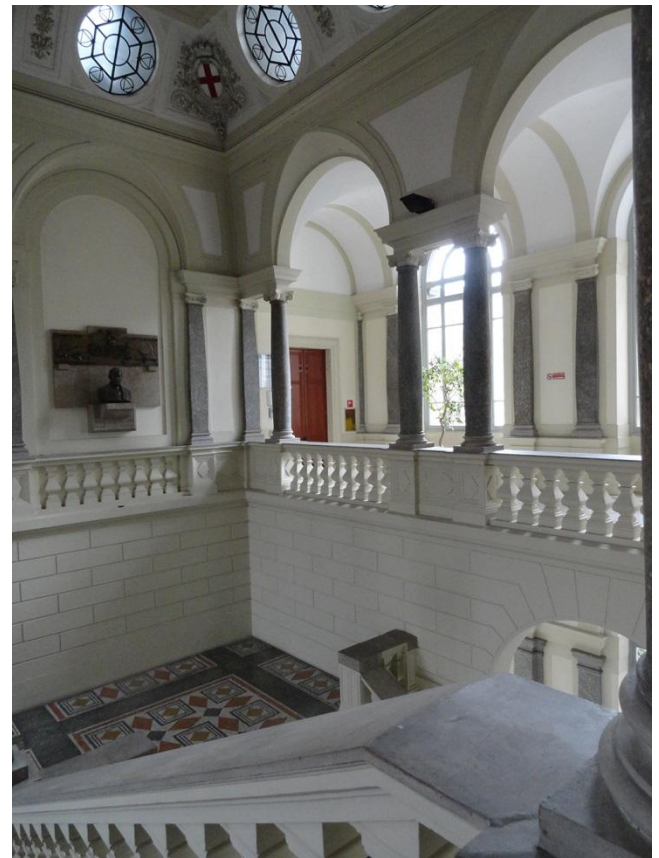
# Newsletter GRINCOH



**Growth-Innovation-Competitiveness  
Fostering Cohesion in Central and Eastern Europe**

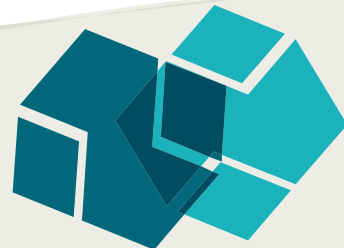
*After two years, the project GRINCOH has entered a phase of consolidation of research results. The results obtained so far were presented during the conference in Milan, 27-28 February 2014. This newsletter is devoted to the presentation of the first selected conclusions of particular workpackages. On this basis in the final step we will propose appropriate recommendations for the EU Cohesion Policy.*

## Consolidation phase of GRINCOH project



### Conference in Ljubljana

The next GRINCOH conference is scheduled in Ljubljana on 25-26 September 2014. It will be hosted by the Institute for Economic Research at the hotel Central. More details will be available soon on GRINCOH webpage: [www.grincoh.eu](http://www.grincoh.eu)





## Economic development patterns and structural change

*Results show that patterns of growth are considerably, sometimes increasingly, heterogeneous, pointing more generally to uneven economic convergence within the EU.*

The empirical assessment of economic convergence provided additional evidence of differentiated patterns in the NMS and the EU as a whole, both prior to and after the NMS' accession to the EU, in the lead-up to the current crisis and during the crisis. **The results underline the considerable, sometimes increasing, heterogeneity of growth, pointing more generally to uneven economic convergence within the EU.** This concerns not only the lasting differences between the NMS and EU 17 economies, but also significant dissimilarities between the growth patterns among individual countries within each of these subgroups (e.g. Hungary, Baltics, southern Europe versus North, etc.). This is clearly evidenced by the considerable within-group variation, sometimes growing over time, in various performance characteristics. **The absolute real convergence between the NMS and the remaining EU countries has continued (on average) without interruption before and during the crisis, albeit at a reduced speed in the latter period.** However, the assessment of individual growth patterns depends a lot on the selected time period and the particular convergence indicators. There is no unequivocal and straightforward conclusion regarding the convergence of individual NMS during the transition and EU membership periods.

The catching-up integration model of growth in the NMS economies prior to the crisis was not much different from that in the EU-17. NMS economies were converging to the more developed EU Member States also in many important structural aspects of economic performance such

as labour productivity, competitiveness, export performance, etc.

**In fact, the empirical evidence suggests that economic growth in the NMS was to a larger degree related to improvements in structural supply-side factors than this was the case in EU-17 economies.** At the same time, the NMS have also mobilised considerable resources in their catch-up process. In relative terms (as a percentage of GDP) NMS economies attracted more FDI and more foreign savings in general than EU-17 economies and had higher fixed investment shares in GDP.

**The economic performance of the EU countries in the crisis period 2008-2011 suggests weakening of the growth model that prevailed before.** This collapse may lead to additional arguments for critics of the so-called 'integration' growth model. Regrettably, in purely econometric terms, the time that has elapsed since the start of the crisis is still relatively short to try and estimate separate behavioural relationships for this period alone. If one considers the issue of economic convergence related to NMS per se the answer seems to be straightforward and unequivocal: real convergence within the EU will continue as a fundamental long-term economic trend. As seen even in the recent crisis years, the NMS still maintained a positive growth differential vis-à-vis the EU-17. However, this was happening against the backdrop of a major downward shift in GDP growth rates across the whole EU. However, as in most other EU Member states, on the regional level divergence will be observed, mostly due to metropolisation processes.

## International context of cohesion: the role of trade and FDI

**Foreign trade.** We analysed the new member states' (CEECs') export performance in comparative perspective with other transition countries, emerging economies and the "old" EU15. **We have found that along with the ongoing EU accession, the contribution of the foreign market access component to CEECs' exports has been gaining in importance.** Thus, the export performance of CEECs' in the last decade has been predominantly due to their better position in the EU market, while the contribution of CEECs' supply capacity has been decreasing. This is not a good sign for the future as it indicates that CEECs may be beginning to lose their export competitiveness. In another research, **we have found that for CEECs, trade growth is an important positive contributor to GDP, employment and productivity growth** – thus the risk of worsening export performance is a problem. **We have also found that in CEECs the growth of trade importantly spurs innovation** – thus again, the risk of worsening export performance is a problem. In a further strand of our research, when analysing in detail the Visegrad countries' and Austria's exports to Germany, we have found clear proofs that unit labour costs (ULCs) do influence export quantities with a negative sign. In other words, **price competitiveness, whose importance is sometimes put into doubt, remains an important determinant of export performance and indirectly even of GDP growth and innovation (technological development).**

**Foreign direct investment.** Our research based on data for 10 transition economies: Bulgaria, the Czech Republic, Croatia, Estonia, Latvia, Lithuania, Poland, Romania, Slovenia and Ukraine has shown that **foreign-owned firms tend to have higher productivity growth than domestically owned ones, and significant positive technology spillovers from these firms to domestically owned ones depend on the skill level of the latter firms.** In another research, using the IWH-FDI micro-database on multinationals' location in Eastern Germany and CEE, **we have found that 38% of the foreign subsidiaries in East Germany and 21% of those in the selected CEE countries did source and transfer knowledge and technology by R&D co-operation from and to the regional innovation system,** and a case study of Hungarian foreign-owned enterprises has also led to similar conclusions.



## Innovation, entrepreneurship and industrial dynamics

**R&D excellence.** Our analysis of science outputs of world regions based on bibliometrics data in 1981-2011 period shows that **there is global shift in science but largely in terms of quantity (papers) and much less or not yet in terms of impact (citations)**. This shift is characterised by gradual shift in papers towards Asia and other non-North Atlantic regions and by decline of the Former-USSR science systems. At aggregate level science systems operate with high inertia and in areas of their historically inherited advantages and disadvantages. **Nevertheless, within largely unchanged areas of regional advantages and disadvantages in the past 30 years only the EU15 has gained comparative advantages in papers in fundamental and applied sciences and CEE in applied sciences while only EU15 has gained RCA in citations in life and applied sciences.** Other world regions have not gained advantages in new areas which show very strong persistence of world science specialization patterns. Third, at more detailed level we show that three major changes have been the loss of the excessive specialization of South EU in applied sciences; excessive specialization of CEE and Former-USSR in fundamental sciences that has been followed by reduced specialization of the CEE and continuous excessive specialization of the Former-USSR and its de-specialization in life sciences. **CEE region has been clearly converging with the rest of the world showing a stable divergence path from the Former-USSR.** This demonstrates a clear and deliberate preference for departure from common institutional features shared during the pre-transition period. In this context, one can say CEE, South EU, Asia Pacific, Latin America and Middle East are catching-up regions.



## Labour markets, skills and social dynamics

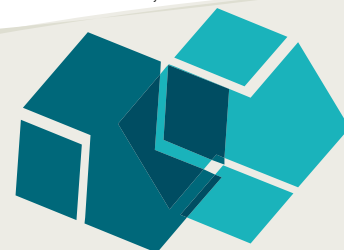
**Labour market developments.** Aggregate labour demand as well as the demand structure changed during the economic transition in post socialist New Member States. There was a marked drop in employment during the transitional recession in the 1990s in all countries later on there was large variation in the recovery of the labour markets. **Relative employment rates of men are below EU15 average in all CEE countries (exception Czech Republic).** Relative employment rates differ by educational attainment. **Employment rates of those whose highest educational attainment is tertiary education is similar in the CEEs to average employment rate of EU15, employment rates of those who have upper secondary education is slightly lower, while there is a very large and persistent lag in the employment rates of the undereducated (less than upper secondary education).** Employment rates in the population with low (ISCED 2 or below) level of education in the CEE countries are not only lower compared to the EU 15, and western and northern Europe in particular, but the employment gap is increasing beyond the age of 40. **Relative unemployment rates improved in the 2000s up to the financial crises and also after 2010.** Common problems in the CEEs are (i) low employment rates of men

**Technology activity.** In terms of technology activities global trends show somewhat different but also similar picture. First, **CEE seems to have reduced its patenting activities drastically in absolute and per capita terms after 1990 and maintains now a stable level below the performance of EU15 and South EU and the former USSR.** This is in sharp contrast to science publications where CEE is clearly catching up region which is converging also in terms of disciplinary structure with the EU15. Asia Pacific is in absolute terms the strongest region in the number of priority patents even if we eliminate Japan. This trend resembles rise of Asia in terms of publications though not yet in terms of their impact. **In CEE the share of high-technology patents started to increase from 2.5% in 1997 to reach about 7% in 2008 outperforming South EU.** In 2009 the CEE share declines and remains below the EU15 share of 9%. The technological profile of CEE converges clearly over time with the technological profiles of EU15 and South EU and diverges with the profiles of North America and the Middle East. A slight divergence can be observed between the technological profiles of the CEE and the former USSR and a slight convergence between the profiles of CEE and Asia Pacific.

**R&D policies.** The analysis of national policy mixes points to a **relative stability of policy profiles during the 2004-08 and 2009-12 periods despite some small shifts in terms of funding priorities**. The relative stability of policy mixes is quite a robust feature of the EU27 (plus Norway and Switzerland) countries, which suggests that policy mixes are shaped either by durable structural features and/or by equally persistent policy philosophies or policy approaches.

(ii) extremely low employment rates of the low educated (iii) low activity rates.

**Regional mobility.** We examined the effect of different types of social capital on migration intentions in the context of shrinking regions. The results show, that **socio-economic factors as well as social capital shrinking does not affect mobility intentions.** However, if an individual considers to move away he/she reduces his/her participation in informal and formal networks since the “returns to social capital” seem to be lost if the movement occurs and the person has to leave the local network base. **Individuals characterised by strong informal ties show a significantly lower probability of moving away. In contrast, more qualified types of social capital as participation in local politics or initiatives seem to encourage spatial mobility.** The reason for the mobility enhancing impact of formal social capital are the weak ties to network members living in other regions. networks with extensive connections “to the world” but with a strong local base are required to keep the balance between openness and localness, between activating and keeping people.



**Unskilled unemployment.** We examined the problem of massive unskilled unemployment, a common and distinctive feature of CEE labor markets. The research concludes that two important drivers of unskilled employment are absent in the post-communist EU member states. **First, unlike in Southern Europe, the low educated cannot rely on the traditional small-firm sector that had been eliminated under state socialism and could not recover since then. Second, dissimilar to Northern Europe, low educated people infrequently participate in adult training and civil activities, which could develop their cognitive and non-cognitive skills.** These conditions severely restrict the number of jobs available for them while their exclusion from work limits their links to the rest of the society and both non-employment and social isolation constrain them in skill formation.

**Effectiveness of employment policies.** We examined the potential role of activation tools, which may contribute to labour market adjustment. In broad terms, the behavioural conditions of unemployment benefits follow Western European standards in all the CEECs, but with much variation in the details of activation rules and most probably in the implementation as well. **The results confirm the effectiveness of a consistently strict approach to activating the non-employed population and also point to synergies between certain policy elements.** A combination of high spending on Public Employment Services (PES) and strict monitoring of job search yield a high search intensity, irrespective of the coverage of registration requirements. This is an effective strategy to the extent that high search intensity yields high reemployment rates. At the other extreme, limited registration requirements and low spending on PES yield low search activity, even if job search monitoring is strict. In-between activation approaches appear to yield mixed results.

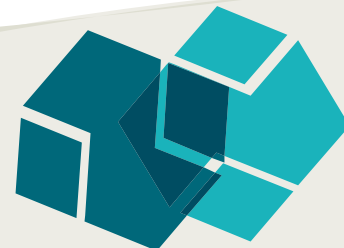
**Vocational Training.** Our results underline that workplace-based training improves initial employment chances of apprentices in a Central Eastern European setting of Hungary. **The results show that vocational training graduates, who have done their practical training at private firms, are around 10-15% more likely to be employed after they finish education, than those who had their practical training in schools and are otherwise similar to the workplace-based group.** The effect is net of individual skills, school attainment, parental background, motivation, gender and ethnicity, and robust to the inclusion of industry fixed effects, and for school fixed effects but only for students trained in mid-sized firms. Also results show that the significant marginal effect of apprenticeship training declines rapidly for students trained at large firms, while this decline is less marked in medium or small firm trained apprentices, suggesting that large turnover could eliminate the positive effects of apprenticeship training more quickly.

**Participation in adult education.** Participation in adult education, especially in non-formal adult education is substantially lower in CEE countries than in western and northern Europe, both for the employed, unemployed and inactive population (two exceptions: CZ, EE). Since adult training for the employed is more often provided by the employer, and economic theories of training suggest that firms provide less than optimal training, the under provision of training is likely to be more serious in CEE countries. This argument is consistent with the PIAAC data, which show that in selected CEE countries training participation of the employed is lower even when skill requirements of the job are controlled for. At the same time, government sponsored

training for the unemployed is also provided on a lower scale. For country-education-age groups the employment rate is positively related to training participation of the employed population, suggesting that adult training may improve the employment prospects of older workers. **Educational attainment has a stronger effect in CEE countries, i.e. participation rates for the low skilled are disproportionately lower.** Note that this holds both for the employed and the unemployed. Furthermore, for those with a medium level of education the training gap is increasing in age. Training participation is always positively associated not only with education, but also with basic skills (literacy, numeracy), as better skills make training more profitable and/or less costly. The weaker basic skills of those with a low or medium level of education in CEE countries are likely to play a role in the CEE-EU15 training gap.

**Causes of Roma/non-Roma school achievement gap.** In Western European societies, the most disadvantaged ethnic minorities are recent immigrant, while in Central and Eastern Europe, the most severe gap is between the Roma minority and the mainstream society. We quantified the achievement gap between Roma and non-Roma students in East Central Europe and assessed the potential causes of the gap. Using the UNDP survey of 2011, the only comparable data on the Roma spanning many countries, we show that the gap in the chances to get secondary education is substantial in all countries. **Using unique data from Hungary, we assess the gap in standardized test scores and show that it is comparable to the size of the Black-White test score gap in the U.S.A. in the 1980's; however, that gap has since narrowed significantly.** To a large extent, these deficits explain Roma students' later lack of success on the labor market and the intergenerational transmission of Roma minority disadvantage. Our results show that social differences (in income, education and place of residence) account for a large part of the gap. Disadvantages in the home environment that play a key role in the school performance gap are largely explained by social differences. Ethnicity plays no additional role in the significant cognitive disadvantages associated with the parenting of Roma families; these disadvantages are fully or almost fully explained by the parents' lack of education, poverty, and residential disadvantages. Another key factor in the test score gap between Roma and non-Roma students, in addition to the disadvantages of the home environment, is Roma students' lack of access to good schools. This lack of access is due to residential disadvantages and the school system's selection mechanisms. Students of low social status have a significantly greater chance of ending up in a class segregated by ability, independently of ethnicity. However, Roma students also suffer the effects of ethnic segregation.

**Reform of higher educational systems in CEECs and the effectiveness of its link with R&D policy.** We analysed, if and how the European, national and regional higher education and R&D policies are actually contributing to economic development and cohesion, especially in terms of specialisation. The results show that **there has been, despite Barcelona Process and numerous institutional changes little meaningful reforms to increase substantially competitiveness of the higher education systems in the CEE countries.** Demographic decline and increasing competition in higher education indicate substantial challenges ahead. The above calls, in the context of smart



specialisation and industrial change, for much more effective public policy and better co-ordination between various policy fields, such as higher education, R&D, innovation, entrepreneurship, labour market and immigration policies. The achievement of the 3% research intensity target established in the European Unions' Lisbon and EU 2020 strategies presupposes a substantial structural change toward more science intensive industry in the CEEs. Contrastingly, these economies have demonstrated so far a relatively slow build-up of science intensive industry. The economic growth observed in these economies has to date relied on a number of other factors, such as learning by doing and adoption of foreign made technology; and in 2000s a finance,

consumption and real estate boom; rather than domestic industrial R&D and science based innovation. **The number of researchers employed by industry needs to increase significantly in CEEs to allow them to catch up with more science intensive economies in Europe.** However, higher education and public R&D systems of CEEs have suffered for an extended period from underinvestment and unnecessary institutional fragmentation. Consequently, the quality of higher education, especially at the level of graduate studies, is weaker than the European top universities. The number of PhD graduates in STEM disciplines remains also insufficient for building up modern science intensive industry in cohesion economies.



## Social Cohesion and Social Policies

*Results show low income inequality in most Central European and Scandinavian countries and the highest in some East and South European countries as well as in the UK.*

**Drivers of inequality and poverty.** Our research shows that in a European context income inequality (measured by the Gini index) is quite low in most Central European and Scandinavian countries within the EU while it is the highest in some East European Member States (Latvia, Lithuania and Bulgaria), South European countries (Portugal, Spain and Greece) and the UK. The inequality in the measured household health status and in housing shows above average inequality levels in the CEE EU Member States (except for Slovakia, Slovenia and the Czech Republic in the case of the housing indicator). As to household educational attainment levels we could see that while inequality is quite low in Central European and Scandinavian countries, but also the Baltic States, the differences are much more pronounced in the South European countries.

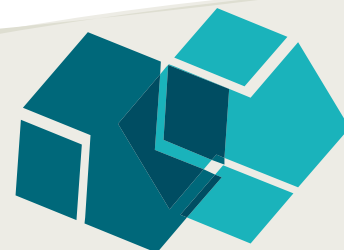
Concerning the drivers of inequalities the household specific employment rate has proved to be the most important driver of income inequality in the whole of the EU. Second most influential are differences in the educational attainment rate of the head of the household. In all countries the combined effect of gender and age is explaining just a small part of the inequality levels. The same is the case for differences between urban and rural areas for most of the EU countries. However, Poland, Bulgaria and Romania regional differences are remarkable additional drivers of the level of income inequality.

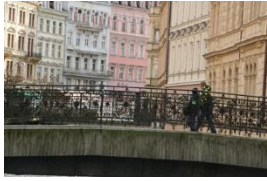
**Health disparities.** Our research assessing the factors behind health disparities in Europe found that the health status of the population is fairly different in the "old" and "new" EU member states and the CIS (former Soviet Union) countries. The explanation for these differences

was investigated by scrutinizing three different groups of factors: 1. Socio-economic factors: geographical position of the country, level of economic development at present, the political and ideological system of the economy in the past. 2. Lifestyle factors: alcohol and tobacco consumption represented by their relative prices in the past, consumption of spirits, overwork in the hidden economy in the past and present. 3. Health care resources: the share of health expenditure in the GDP.

**Exclusion of women and disabled people from the labour market.** Studying labour market exclusion of women we found that female employment has increased in Central and Eastern Europe at least until the global financial crisis, but at a slower pace than in Old Member States. We found that this narrowed the gap between OMSs and CEECs by 4.5% points between 2000 and 2007. The faster rise in the employment rate of older women in OMSs contributed the most to this, while a faster decline in the child penalty along with a faster improvement in female education levels in OMSs played a minor role. After 2007, trends seem to be driven by general labour market developments, rather than demographic changes.

**Family policies and female labour force participation in the Visegrad-countries.** Searching for the causes of falling birth rates and the difficulties to harmonize family and work in CEECs we investigated whether there has been a move towards more flexible family policies for parents with children under the age of 3 that would help overcome obstacles of maternal employment as well as would promote families to have more children.





## Territorial dimension of EU integration as challenges for Cohesion policy

*Results show that regional convergence in GDP per capita observed across the CEEC macroregion is weak.*

**Regional disparities and regional development dynamics.** In the researched period, **weak regional convergence in GDP per capita terms could be observed across the CEEC macroregion.** This was a consequence of the dissimilar rates of growth in the specific groups of countries, and particularly of the faster economic growth in the less-developed countries (the Baltic states, Bulgaria and Romania) which tried to close the gap caused by their delayed commencement of the transformation and restructuring processes. Secondly, the convergence of regional incomes measured in EUR was enhanced by the appreciation of selected national currencies. It should also be noted that the convergence process came to an abrupt halt during the recent financial crisis which began in 2008.

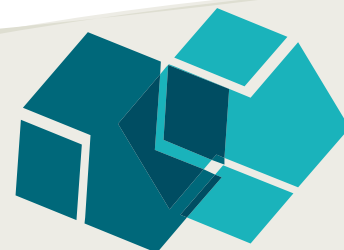
**Most of the countries demonstrated some tendency for the polarisation of development processes, although the situation in that regard in the smaller countries was rather stable.** In addition to the capital city regions, the regions of other large cities represented a robustly developing group of regions, a feature that particularly well visible in the countries with polycentric settlement structures such as Poland and Romania, which can point to the considerable role of metropolisation processes in regional development. On the other hand, there were also some problem areas, typified by low paces of growth or even economic stagnation in some cases. As a rule, these were rural regions, most of them located near the external, eastern border of the macroregion, and regions located along internal borders with low permeability owing to the existing geographical barriers (e.g. the areas at the Romanian-Bulgarian border along the Danube). The remaining regions formed a rather disparate group, characterised by a mixed economic structure and diverged growth rates.

**Diffusion of development processes.** In macroregional terms, gradual convergence in the less affluent countries could be observed, a process which is invariably followed by convergence at regional (NUTS3) level. It should also be pointed out that the scale of regional disparities in relation to GDP per capita still remains huge. In consequence, **the better-developed regions situated in the western part of the macroregion and the less-developed subregions situated in the eastern part, can still be viewed as clearly separated poles.** The observable diffusion processes assumed a hierarchical form, encompassing the major urban centres situated in the less-developed countries and areas on the one hand, and on the other, some role of contagious diffusion could be observed, also in connection with the existing transport system (the role of the main transport corridors). Diffusion processes are manifested by the paces of growth of the neighbouring regions becoming similar. This, however, could, paradoxically, further deepen the scale of regional divergence (separate macroregions of affluence and poverty). The GDP rates of growth relativised by the national average values do not suggest such a spatial impact, which in turn could point to the highly 'patchy' nature of the growth processes,

accompanied by no visible influence of the development centres on their direct surroundings. In other words, examples of both the existence and the lack of such contagious diffusion can be found. The types of diffusion were quite strongly dependent on a given sector of the economy. In case of business services, hierarchical diffusion was clearly the prevalent type, while the industrial sector manifested a mixed (both hierarchical and contagious) model, whereas in the agricultural sector a significant role of contagious diffusion could be observed.

**Sources of regional economic growth.** When analysing the sources of economic growth regions of the CEE countries in three different perspectives (international, national absolute and relative), firstly, it should be concluded that **regional economic growth was strongly correlated with improved productivity, with the exception of the model that relativised the pace of regional growth with the national average, where an increase in the number of new jobs proved to be more important.** This means that the flows of workforce from poorer to more affluent regions had a greater impact on the dissimilarities within individual countries than the differences in improving external competitiveness of regions based on increased productivity. Secondly, dissimilar sources of economic growth could be observed in different types of regions.

- **Metropolisation processes which, as the research found, incorporated many interrelated processes, proved to be of greatest importance in large city regions.** The key such processes include: development of a modern business services sector (presumably, mostly knowledge-based) and high-tech industry (including branches tapping the existing R&D potential). However, based on these analyses, it was impossible to determine whether such a situation was caused by exogenous (e.g. influx of capital, technology transfer) or endogenous factors (e.g. human capital, R&D operations). It should be assumed nevertheless that it was at least partly due to the inclusion of these areas into globalisation processes, a development that acted as a magnet that attracted new, highly-qualified employees from other regions. **In the transitional regions, which also include old industrial regions, restructuring processes in industry played a key part;** as a result, the traditional industries lost in significance (which simultaneously was coupled with the outsourcing of some simple services) in favour of modern industrial sectors. It should also be noted that reindustrialisation, which brought a relative improvement to the regions' situation on the domestic arena, did not necessarily boost their success supranationally. In this approach, increased productivity in industry proved much more



important; its share in the creation of GVA diminished while the significance of accompanying services was increased.

- **Accelerated modernisation processes in the agricultural sector, manifested especially by decreased employment, were found to be the key ones required to achieve a relative success in peripheral regions.** This was fostered by industrialisation processes which on their own, however, did not guarantee success supranationally. The location of large urban centres in those regions was a significant factor as cities supported the development of business services, which in turn could be viewed as proof of hierarchical diffusion as part of the national settlement systems.

**Role of transport infrastructure in development processes.** The main findings are the following: (1) Most of the investments supported by the EU are related to road infrastructure development; (2) Most financing was used in the 2007-2013 programming period; (3) Linear infrastructure seems to have a higher impact on the early development level.

**As for road infrastructure** the main results are as follows:

- a. EU supported infrastructure concentrated in the Western part of the CEEC.
- b. Investments analysed did not contribute significantly to development across the Baltics, Bulgaria-Romania, Hungary and Slovakia, Poland-Slovakia

- c. There is little improvements with linkages across external EU border (except for connections with Ukraine, Turkey and Belarus).
- d. Most effective (in terms of travel time shortening) was the support to investments linking primary centres in Poland, Czech Republic and Bulgaria, while in relation to outer links in all countries except for the Baltic states.

**As for rail infrastructure** the main results are as follows:

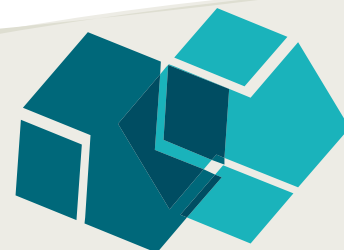
- a. All the support given to modernisation projects.
- b. Improvement noted in particular among metropolises of Vysegrad Group countries (CZ, HU, PL, SLO) and Slovenia.
- c. Bulgaria, Romania and Baltic states remain isolated from the EU and CEE modern railway system.

**As for air transport infrastructure** the main results are as follows: a) The only new airports constructed with the EU support were located in Poland (Modlin and Lublin; in both places old runways and other infrastructure were used); b) In larger airports (Warsaw, Budapest, Sofia) the outlays increased the throughput of the runways and the terminals, allowing for the development of the new connections and for improvement of service quality; c) In case of most regional airports projects supported (oriented mostly on low-cost carriers, economic profitability of these projects and of respective facilities remains problematic.

## Dynamics of institutional convergence

**Institutional convergence.** We tested the hypothesis that there is one best (praxis proven) coherent combination of effective institutions for all Central- and Eastern European countries that ensure macroeconomic stability and enhance economic growth and that the new EU member state will converge to this institutional framework through ex ante harmonisation. The results of our empirical tests do not support this hypothesis. **The new member states (CEECs) adopted the same set of institutions, in some cases in terms of soft regulation as for example for corporate governance. Though the efficiency of these institutions differs very strongly within countries sample.** We found that the drivers of recent institutional convergence are institutions such as competition policy, enterprise restructuring, securities markets & non-bank financial institutions and corporate governance. All of them are necessary for contestable and well-functioning markets, and thus for growth.

**Political stability and economic performance.** We analysed relationship between characteristics of governments (stability of governments, their political orientations) and economic performances of the 10 central-eastern European EU members. The analysis covered the period 1989 - 2010 or 2013 (depending on information available) and is based on statistical data, documents, scientific analysis and press reports from international and national sources for countries: Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia and the three Baltic States (Lithuania, Latvia, Estonia). The research made it possible to draw the following conclusions. **High instability of governments expressed in the number of governments and prime ministers, and a very low number of governments which served full term in office, is striking. However, despite this, economic (as well as institutional) policy pursued by them has been surprisingly coherent** in the sense that it has led all these countries to similar results: building market economy with all relevant institutions and integration with the Western geopolitical sphere (the EU and NATO).





## Cohesion policy and its components: past, present and future

*Results show that cohesion policy support for RTDI is modest but the proportion increased in 2007-2013. The relationship between the strategic quality of Cohesion policy and institutional factors as well as relationship between the capacity to implement CP and institutional factors is two-sided.*

**Cohesion policy achievements under Research Technology Development and Innovation (RTDI).** The main results of the analysis regarding this issue are as follows:

- Cohesion policy support for RTDI is modest but the proportion increased in 2007-2013,
- Cohesion policy support for these types of intervention are considered crucial given the paucity of alternative funding sources,
- Support considered fundamental to the development of RTDI by interviewees,
- However, these are among weakest performing priorities in OPs in terms of financial performance and physical progress.

There are particular problems in specific measures that are deemed important for future competitiveness:

- a) co-operation among the business sector and public research,
- b) co-operation between academic and private sectors for the application and commercialisation of research.

**Strategic quality and institutional factors.** The main results of the analysis regarding this issue are as follows:

- The relationship between the strategic quality of Cohesion policy and institutional factors is two-sided: a) “a good quality development strategy will not only deliver greater economic development but also transform the institutional setting itself”. b) institutional conditions impact on the quality of development strategies
- In all cases, strategic quality evolving from 2004 and improving (evidence base, analysis, strategic focus)
- OP preparation process, negotiations and approval without significant problems
- Evidence of positive impacts of strategy-building on institutional environment: a) Increased consultation, new partnership structures evident in some domestic policies b) Increased awareness among beneficiaries of role in broader development process c) CP strategic planning principles impact reflected in new generation of domestic strategies

However, the main problems are as follows:

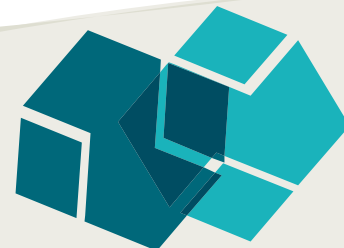
- a) problems with formulating objectives, prioritising actions, setting intervention logic;
- b) lack of analyses for strategic programming, insufficient mapping of development needs;
- c) fragmentation of funding across too many interventions:

overlaps, administrative burden and scattered results (all cases)

- d) emphasis on financial rather than strategic absorption: infrastructure rather than Lisbon type measures;
- e) quality of programming process limited by institutional context: central guidance limits regional input, recentralisation undermines ‘bottom up’ strategic coordination, ‘silo mentality’ among ministries undermines strategic coherence, limited input of regional interests in national OPs linked to narrow domestic regional policy model, limited input of beneficiaries in strategic programming due to institutional factors - political and organisational norms and traditions.

**CP implementation & institutional factors.** The main results of the analysis regarding this issue are as follows:

- The relationship between the capacity to implement CP and institutional factors is again two-sided: a) CP can change or improve quality of institutions; b) an enabling domestic institutional framework is crucial to successful programme implementation.
- Overall, institutional impacts of CP implementation have been evident: a) multi-annual planning, monitoring, reporting and evaluation practices (all cases); b) increase in the level of technical capacity and skills within public administration (all cases); c) general size and capacity of public administration expanded as a result of Cohesion policy implementation; d) operational approaches from CP being adopted by domestic equivalents; e) Some CP impacts noted by governments in terms of overall effectiveness of public administration; f) strengthened sub-national administrations (but only in ‘enabling’ institutional context).
- However, the main problems are as follows:
  - a) evidence of domestic institutional constraints on CP implementation;
  - b) problems with understaffing, high turnover, low wages, politicisation of civil service;
  - c) lack of continuity between programming periods;
  - d) implementation of CP negatively influenced by tensions in institutional framework;
  - e) tensions between domestic/EU regulations, (e.g. public procurement process, all cases);
  - f) capacity deficits particularly evident in: lack of expertise in public procurement, state aid, innovative projects; Limited use of evaluation evidence – weak role of evaluation in domestic institutional context.





## Scenarios, policy options and policy suggestions

*According to paper by Roberto Camagni and Roberta Capello the winning strategy is neither to focus on champion places and regions, in search of the highest efficiency, nor on lagging areas, in search for equity. Policies designed on each regions' specificities, competitive advantage and needs are the right policies, able to engage all possible assets and enlarge excellences.*

Roberto Camagni and Roberta Capello presented a paper on the “**Rationale and Design of EU Cohesion Policies in a Period of Crisis, with special reference to CEECs**”. The aim of this paper is to reflect on how to design sound cohesion policies in a period of deep economic recession.

In particular, the paper tackles two important topics. The first deals with the justification for EU regional policies in a period of economic downturn, since they may look less urgent and appropriate than short term demand policies. Instead, as the paper argues, **the crisis exerts considerable pressure on several EU countries, and may even, in the worst case, jeopardize two decades of efforts towards EU enlargement and cohesion. In this condition, regional policies are called to rebalance the spatial effects that the ongoing crisis is determining on interregional convergence trends.**

The second topic relates to the most appropriate design that cohesion policies should follow. The message that the paper conveys from a conceptual point of view, corroborated by empirical results, is that **the winning strategy is neither to focus on champion places and regions, in search of the highest efficiency, nor on lagging areas, in search for equity; policies designed on each regions' specificities, competitive advantage and needs are the right policies, able to engage all possible assets and enlarge excellences.** This pathway at the same time avoids the social and economic costs of a concentrated development and guarantees the highest returns in terms of both competitiveness and cohesion. At the end, suggestions are proposed on how to respond to the specific and particular challenges that New Member countries of the EU are facing now, on the basis of the previous conceptual and empirical evidence.



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