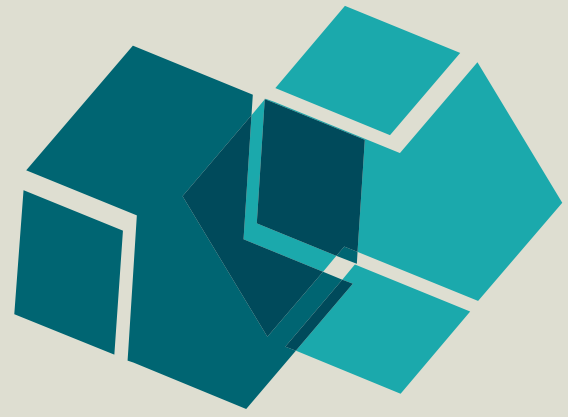


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Newsletter GRINCOH



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

After almost three years GRINCOH project has entered its final stage. So far the participants have prepared numerous papers and reports available on GRINCOH web page. The final results will be discussed during Final Conference in Warsaw (26-27 February 2015).

In this issue of the Newsletter we present the latest project findings.

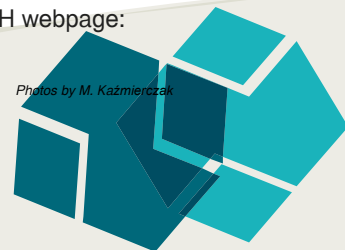
Towards final stage of the GRINCOH project



GRINCOH final conference in Warsaw

GRINCOH final conference will take place in Warsaw on 26-27 February 2015. The conference will focus on challenges facing CEE countries. The main findings of GRINCOH project will be presented. The event will be held at Pałac Kazimierzowski. The conference agenda and further details will be soon available on GRINCOH webpage: <http://www.grincoh.eu>

Photos by M. Kazmierczak



Institutional convergence in CEECs

Corporate Governance and Financial Constraints in foreign owned Enterprises

Andrea Gauselmann, Felix Noth

Results show that allocating more decision power to subsidiaries only increases financial constraints if the decision power is initially very concentrated with the headquarter. The inquiry finds that a high concentration of decision power within the MNE's headquarter implicates high financial restrictions within the subsidiary. Square term results show that the effect of financial constraints within the subsidiary decreases and finally turns insignificant when decision power moves from headquarter to subsidiary. In order to alleviate financial frictions, as much power as possible should be allocated to the subsidiary. Thus, economic policy should encourage foreign investors to leave/give as much power over corporate governance structures as possible

Coordinated policies and cohesion policies: their relationship and impact on the Member States

Judit Kalman, Marek Tiits

Cohesion has been a mixed success in the European Union in the last decades. Some cohesion countries, often the poorest, were catching up fast in GDP per capita terms, but domestic demand led growth and excessive wage growth have led to the erosion of competitiveness in such economies in 2000s. While this has been the case, a number of other countries have not experienced meaningful growth for a decade or even longer. Social situation, which improved prior to the global financial and economic crisis, has worsened significantly thereafter.

So far, combined national efforts, EU cohesion funds, and open method

of co-ordination have been ineffective in fostering the emergence of a 'flying geese' development pattern like the ones witnessed after the British Industrial Revolution in 18-19th centuries in Western Europe and in 20th century East Asia. Specialisation on low-income activities such as low- and medium-tech manufacturing, and non-knowledge-intensive services along with the slow industrial change are also the key reasons that do not allow for closing structural cohesion gap within the European Union.

The current research concludes that the European Union, and the euro area in particular, needs a much better co-ordination of its macro- and microeconomic policies. The co-ordination of production and employment levels should be central to it as far as the stability of the euro, and socio-economic cohesion are concerned.

Europe 2020 strategy needs a more stringent and actionable vision. A stronger vision of Europe's technological and industrial future beyond 2020 would open both for more and less advanced economies in European a more clear vision of the direction European Union seeks to take. This, in turn, allows for better re-alignment of research, education and labour market policies, etc.

Setting the incentives right is crucial if the execution of a strategy is to be a success. For one, the European Investment Bank and the European Investment Fund could play a much stronger role in fostering industrial upgrading in Europe by establishing specialised investment funds that support early stage growth in new high-tech firms, and restructuring of the existing major industries across Europe.



Social cohesion in CEECs

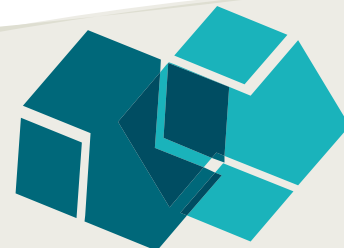
Effects of income inequality on population health and social outcomes in the EU at the regional level. Differences and similarities between CEE and Non-CEE regions.

Sebastian Leitner

Photo by Mikhail Evstafiev

Our analysis found that indices of income inequality conditional on GDP p.c. levels showed significant correlations with a number of social indicators. For life expectancy at birth, infant mortality rates, (age structure adjusted) death rates for assault and heart attack, homicide rates, robbery rates, rates of domestic burglary, rates of youngsters (age 15-24) not in employment, education or training (NEET) and rates of early leavers (age 18-24) from education we found significant results for the thesis that higher inequality levels tend to lead to a worsening of social outcome variables.

The results often differ in magnitude for the NMS regions and Non-NMS regions; however, the direction of the relationship between inequality and social outcomes is almost always the same. No significant results could be found for infant mortality rates and age specific death rates for drug dependence and mental diseases in the case of the NMS regions. The coefficients for the latter two rates show significant negative signs in the case of the Non-NMS regions, which is counter-intuitive (one problems of cause-specific death rates may be that classification



strategies are divers in various countries and cases of comorbidity dealt with differently). For the NMS regions we obtained one counter-intuitive result for theft rates of motor vehicles, which correlate negatively with poverty rates.

Conditional significant correlations with satisfactorily high explanatory power for at least two of the three inequality indices have been found for the NMS for life expectancy and homicide rates, for NEET rates and early leavers from education. For the Non-NMS this is the case for NEET rates and the rate of early leavers from education. However as indicated above also for most other social indicators applied we find significant coefficients for the inequality measures.

The analysis shows that redistributive policies aimed at reducing income inequality might lead not only to improved population health but also to general positive spill-over effects in the form of lower crime rates and increased activity and participation rates of youngsters in education. The split of the sample into NMS and Non-NMS regions reveals that although the effect of GDP p.c. is mostly stronger for the NMS regions also the slopes of the conditional correlations of the inequality indicators tend to be steeper. This suggests that for the NMS countries not only absolute growth of GDP levels is expected to lead to better outcomes in population health and other social phenomena. More redistributive





policies would most probably lead to improvements particularly in those countries. Concerning population health this is no surprise since total health expenditures as a share of GDP are on average lower in the NMS countries compared to the Non-NMS group. Thus it may very well be even more important in the former countries how the distribution of scarce means looks like. In the case of crime rates we find positive correlations both for violent and property crime (except for theft of motor vehicles in the NMS). We obviously cannot identify if the reasons for that are higher expected relative gains from crime or if the income dispersion leads to lower inhibitions to commit crime. However, higher crime rates are per se a fact of widening rifts in the social fabric. A low commitment to redistribution and social security expenditures may thus lead to higher costs for internal security in a society. In both NMS and Non-NMS regions non-activity rates of youngster and early leave from education are strongly correlated with income inequality. We do not expect these regressions to be completely devoid of endogeneity however, the highlighted relationships show that the danger of transmission of difficult material living conditions to the young generation is higher in more unequal societies.

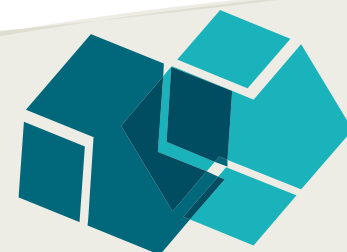
For an overview of coefficients of inequality indicators in the regressions see Table 1 below:

Table 1. Conditional correlations between social outcomes and inequality indicators (in logs)

Dependent variables	EU regions			EU regions excl. CEE NMS			CEE NMS regions		
	Gini	Poverty	S80/S20	Gini	Poverty	S80/S20	Gini	Poverty	S80/S20
Population health									
Life expectancy		-			-		-	-	-
Infant mortality	+	+	+	+	+	+			
Standardised death rates									
Assault	+	+	+		+	+		+	+
Drug dependence			-		-	-			
Circulatory system		+			+	+		+	
Mental diseases	-		-	-	-	-			
Crime									
Homicide	+	+	+	+	+	+	+	+	+
Robbery	+	+	+	+	+	+	+		+
Domestic burglary	+	+	+	+	+	+	+		+
Theft of motor vehicles	+	+	+	+	+	+		-	
Non-participation in labour market or education									
NEET rates	+	+	+	+	+	+	+		+
Early leavers from education	+	+		+	+		+		+

+/- sign of coefficient

-  significant coefficient, expected sign, high explanatory power (R2) of regression model
-  significant coefficient, expected sign, low explanatory power (R2) of regression model
-  significant coefficient, non-expected sign, high explanatory power (R2) of regression model
-  significant coefficient, non-expected sign, low explanatory power (R2) of regression model





Regional development factors

The development factors of the investigated groups of regions were mixed, but in many respects similar, while the human capital and interregional migrations were key factors of regional disparities.

Maciej Smętkowski

Photo by Maciej Smętkowski

Our analyses showed that the development processes taking place in the two identified types of regions in the CEE countries, i.e. metropolitan and non-metropolitan, were characterised by a high level of complexity. Nevertheless, based on the studies and surveys certain generalisations were made concerning the development trajectories of these regions and the role of the analysed groups of regional development factors, together with the course of development processes depending on a given economic situation. Therefore, the summary discusses, firstly, the similarities and differences of development processes in these two types of regions; secondly, the role of individual groups of factors in economic development processes and, thirdly, the role of the economic context in the development of CEE regions.

In the case of metropolitan regions, their attractiveness for inward capital was of crucial importance for reaching a high level of growth. This could suggest that the scale of internationalisation of a metropolitan economy and its inclusion into a global space of flows was the key development factor. Such a process was taking place in the conditions of good multimodal transport accessibility, the presence of an R&D potential and well-developed stock of human capital. As a matter of course, this was accompanied by a number of other phenomena, associated e.g. with structural transformation (deindustrialisation and tertiarisation of advanced business services). Using a dynamic approach, we can see that the role of foreign capital in development processes is largely a derivative of the first phase of the transformation period. Successes of regions in the period of economic prosperity were mainly visible in those metropolitan regions which had adequate human capital resources and where entrepreneurship was on the rise.

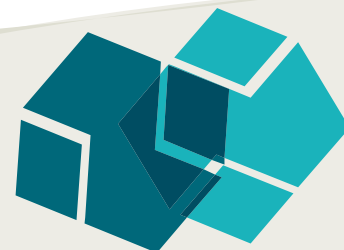
It can be assumed that a new type of entrepreneurship was at play, associated with informational economy. In the period of the financial crisis, however, the role of foreign capital was better visible once more time in the metropolitan regions, together with – paradoxically perhaps – an increased role of the construction sector, possibly a consequence of the increased volume of public investment projects, including those co-financed from the EU, which created demand-side effects for the local economy.

A much wider mix of factors fostering a fast development rate could be observed in the remaining regions. Just as in the first group of regions, here foreign investment was of crucial importance, in addition to good multimodal accessibility, which facilitated the influx of inward capital and created favourable conditions for the export orientation of the regional economy. In structural terms, a low share of agriculture in gross value added was of primary importance in non-metropolitan regions, with a rather ambivalent/debatable impact of the share of industry. In the latter case, high labour productivity mattered even more, as proved by an increasing role of R&D expenditure in explaining the development level of these regions. Another endogenous development factor was the level of SME penetration, whereas the role of human capital stock measured by the number of people with higher education was not as important.

These characteristics in the baseline year had little bearing on the development dynamics of these regions, which can be viewed as proof of their very different development trajectories. The structural factor in the form of a low share of agriculture in GVA proved to be of cardinal importance. In turn, during the financial crisis the region's migratory attractiveness was of greater importance, at least the smaller outflow of the population than in other regions of this group. In the dynamic approach, fast development of these regions was also fostered by a growth of entrepreneurship and increase in the human capital stock, in addition to falling unemployment and reduced share of public services in GVA, which suggests that the endogenous factors do play a role. However, the attractiveness of such regions for inward capital began to matter anew in the wake of the crisis, which was accompanied by a parallel increase of construction in GVA (most probably thanks to public investment projects).

The analyses found that the development processes of the investigated groups of regions were in many respects similar. Achieving a high level of development was possible mainly owing to exogenous factors such as the influx of foreign capital and multimodal transport accessibility (both potential determinants of pro-export orientation of the regional economies). In the case of endogenous factors, penetration with SMEs was of cardinal importance, but it was no guarantee of fast development dynamics. In this approach, a rapid increase in the number of enterprises was more important, but this process was visible mainly in the metropolitan regions. It can also suggest the hypothesis that these were mainly business entities operating in the sphere of informational economy which were set up in response to emerging market opportunities and out of necessity, driven by an unfavourable situation on the labour market. Structural transformation also played a considerable albeit varying role in development processes. In particular, dissimilarities in the economic structures did not significantly affect the growth of metropolitan regions, although higher GDP per capita values could be found in those metropolises where deindustrialisation processes were more advanced. On the other hand, a higher degree of industrialisation could explain the development level of non-metropolitan regions, but less so than the role of agriculture in their economies. The latter was also of primary importance in explaining the development dynamics of regions, manifested by a slower development of agricultural regions. In addition, those non-metropolitan regions were performing better where the role of agriculture and industry, with its traditional sectors, was decreasing.

The main differences between the identified groups of regions included the role of human capital and interregional migrations. In this respect, metropolitan regions represented growth poles which trained highly-



qualified specialists on the one hand, and on the other served as destinations for the migration of students and other well-educated individuals from non-metropolitan regions. Interestingly, the share of people with tertiary education played a more prominent role in the regions from the second group achieving a development success than the increase in the number of new SMEs, a factor which was of greater significance in metropolitan regions.

In terms of regional development, the fundamental difference between the period of economic boom and economic slump was the reduced role of endogenous growth factors (especially an increase in the number of small and medium-sized enterprises), and of structural factors, associated mostly with a decline of traditional industries and agriculture, which were superseded by exogenous factors such as the inflow of inward capital and expansion of the construction sector, accompanied by the supposedly leading role of public investment projects, including those co-financed from the EU funds.

Regions with a concentration of social problems

The main conclusion from the research is that structural social problems at regional level, associated with the vicious circle caused by ineffective economic restructuring and in effect weaker adaptation of some regions to the new socio-economic situation, are of a permanent nature. This results in a poor condition of the labour market - despite considerable improvement nationally – which on the one hand drives the migration of the most enterprising individuals and on the other leads to some of less resourceful residents becoming dependent on social welfare. In consequence, such regions are not attractive locations for inward investment, and their potential for endogenous growth is as limited. It can also be concluded on the basis of the remaining case studies analysed as part of the project that many social problems, visible in their regional concentrations, is shared by all non-metropolitan regions. In particular, this applies to labour market problems which are difficult to resolve due to the fact that increasing productivity, and not an increasing use of the pool of labour, is the main driver of economic growth. In addition, the labour markets of many of the analysed subregions are poorly integrated and commuting to work is still underdeveloped, which leads to the emergence of enclaves concentrating social problems, particularly in rural areas. Such enclaves, however, may also be found in cities, also as a result of the presence of ethnic and national communities.

Regardless of labour market problems, access to basic public services in the problem regions is relatively easy, thanks to substantial transfers from the central budgets. The encountered problems are associated mainly with higher education, with negative consequences in the form of young people leaving for major cities to attend university, which, coupled with rather bleak career prospects locally, as a rule leads to a permanent migratory outflow. At the same time, the main sources of social inequalities are connected with the place of residence, age, and belonging to an ethnic or national group.

In the short term, programmes implemented with the EU financial support played a significant role, facilitating the implementation of regional and national strategies associated with social goals. In particular, they were successful as regards improving access to public services, whereas their impact on the labour market situation was much weaker, with a low effectiveness of training programmes and courses.

The changing state of the natural environment and of environmental policies for sustainable development

Andrzej Kassenberg

In the period of more than 20 years, fundamental changes have taken place in the approach towards environmental protection and sustainable development in NMS 10. The political transformation which took place at the end of 1980s and at the beginning of the 1990s as well as the accession to the EU have left their mark (thanks to market economy introduction, industrial restructuring, individual efforts of countries as well as the assistance of EU funds brought about significant progress in the development of environmental protection, action has been taken to extend the areas where nature and biodiversity are protected).

However, the progress, even though significant, is still insufficient; some of the shortcomings and omissions have not been removed yet: the quality of environment is improving but rather slowly as new threats have appeared with the increase of massive consumption at unprecedented scale (of transport, urbanization and waste management in particular). For various reasons elements of green economy are introduced slowly.

The future will be determined by the main megatrends: increased amounts of pollution and change of its characteristic (nanoparticles, endocrine disruptors, persistent organic compounds), urbanization, mining, intensive agriculture, climate change (due to natural or antropopressures) and other factors, as massive tourism or dynamic globalization. Without higher environmental awareness and “greening” of the economy and consumption in its every aspect the negative results of the megatrends will not be neither satisfactorily controlled nor reduced. Increasing natural areas protection is important but not enough activity: the subject of intervention should be the whole environment, including human beings.

Metropolis and its region – a challenge for territorial cohesion

Metropolisation processes taking place in the Central and Eastern European countries had varying dynamics, largely dependent on the specific regional and national contexts. At the same time, some aspects were noticeable across all the countries of the macroregion. First and foremost, these included a growing involvement of the capital cities in the global economy, a phenomenon manifested *inter alia* by a substantial increase in the number of branch offices of transnational corporations providing services for the business sector. This means a visible progress in the tertiarisation of the economies of the metropolitan regions in the CEEC. It should be noted, however, that this inclusion into the globalisation processes remains one-sided, since the role of the CEEC metropolitan centres as seats of the head offices of large international companies is still insignificant, which to some extent can be attributed to the relative weakness of their national economies. Nevertheless, the convergence process of the CEEC metropolitan areas to the metropolises of highly-developed countries can be regarded as quite advanced.

Speedy increase in the level of wealth of the metropolitan areas can be observed, which is yet another aspect differentiating them from their national economies at large. Nonetheless, the scale of this dominance and the pace of increase can quite vary from one metropolitan area to another, the widest disparities being observed in the least-developed countries, i.e. Romania and Bulgaria, and the smallest – in the best-developed countries, Czech Republic and Slovenia, which partly



corroborates the hypothesis formulated by Williamson, predicting that regional inequalities increase in the early stage of socio-economic development but decrease in the later stages. On the other hand, the Baltic states are different in that regard, as their capital city regions accumulate the bulk of the national economic potential and therefore play a key role in the changing of average values.

The metropolitan areas saw a substantial deconcentration in the population numbers, associated primarily with significant population dynamics outside the administrative boundaries of the central city, although, in some cases, it was also accompanied by a population decrease in this type of cities. In the capital city regions that are developing at a fast pace, the problem of the demographic weakening of the central city is usually less acute. This could probably be ascribed to their being attractive destinations for migration, and such migration could counterbalance population ageing and suburbanisation processes. Deconcentration of the economic processes within the metropolitan area has not been very advanced to date and can be observed only in some of the capital city regions (e.g. Budapest), whereas elsewhere it assumes specific forms associated with given types of activity (e.g. industry in Warsaw). In consequence, the models of changes in the metropolitan systems are quite varied, with a simultaneous occurrence of concentration processes observable in some of these systems, and deconcentration processes visible in others.

The process of the metropolitan areas being separated from their regional hinterlands is quite well visible. It is the fastest in the case of Romania and Bulgaria and the slowest in Slovenia and the Czech

Republic. In this particular regard, the scale of the disparities is even wider than in the analysis of the country at large, which can be viewed as proof of a weakness of the metropolitan hinterland, still functioning according to the industrial and agrarian development model. At the same time, in some cases the growth of inequalities was halted (and even decreased in the Warsaw macroregion in the period concerned), which indicates that the spatial scale of development diffusion processes has increased. In general terms, the process of increasing the disparities slowed down post 2004 in all the macroregions, which can, among others, be explained by direct and indirect effects of the EU membership of the countries under analysis.

According also to the some other studies, the process of diffusion can be facilitated by such factors as development of transport accessibility of the peripheral areas or deconcentration of the population and the economic potential within metropolitan areas. Such factors as these can increase the functional cohesion of metropolitan macroregions as far as work commuting is concerned. On the other hand, the differences in the economic structures between the metropolises and their surroundings still remain significant, and can hardly be viewed as factors stimulating economic integration. The regional hinterland still remains strongly dependent on the natural resources and energy and raw materials industries, and examples of success at local level are still few and far between. In addition, the role of public policies is in this case rather limited and coincidental, owing to their being implemented at national level, in the context characterised by considerable weaknesses of supra-local tiers of public administration and local government.



Cohesion Policy

Martin Ferry

Photo by Acubens

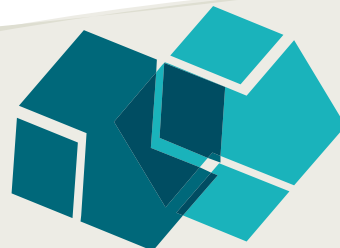
Performance of programmes in CEECs

The extent to which Cohesion policy (CP) delivers true and long-lasting socio-economic transformation is very challenging to assess and its impact has been questioned from the beginning. There are several reasons for this: the shifting objectives of Cohesion policy over time, notably the shift toward growth and competitiveness over equity and cohesion; the multi-dimensional character of cohesion, incorporating economic, social and territorial components; the need to consider the fundamental role played by domestic socio-economic contexts, institutional settings and policies in the achievement (or hindrance) of the goals of Cohesion policy; and, the difficulty of obtaining complete, comparable and quality data on programme achievements.

According to data analysis and case study research, the **financial and physical performance** of Cohesion policy programmes in the 2007-2013 period in CEEC is generally strong. Emphasis is placed by managing authorities on absorption of EU funds: timely spending, auditing and monitoring in order to ensure fast and appropriate use and legitimate expenditures. CEECs have been affected by the experience of pre-accession conditionality which induces them to greater compliance with EU requirements in comparison to the old Member States. Moreover, the financial crisis has driven the absorption of funds. Despite this, an important finding of the research is some variation between

priorities within programmes. Some specific headings related to the Europe 2020 agenda (including investment in Research & Development, technology and innovation) have struggled in terms of performance. This is often due in part to the involvement of a large number of small, complicated projects with low levels of funding, involving a range of beneficiaries that often have little experience of these types of interventions.

The achievements of Cohesion policy in CEECs can also be considered under **'added value'** i.e. the value resulting from the Community assistance that is additional to that which would have been secured by national and regional authorities and the private sector. The most positive views of CP achievements come from qualitative assessments of how value has been added to the governance of economic development. There is evidence to suggest that implementation of EU Structural Funds has had a wider influence on the delivery of economic development policy in CEEC. This process is notable through the broadened range of actors involved, the empowerment of sub-national administrative levels and the introduction of CP management and implementation 'good practice' principles in domestic policy fields.



Assessing long-term impact of CP in CEECs

Assessing the long-term influence of Cohesion policy on development in CEECs is more challenging. An obvious point is the limited timescale of Cohesion policy implementation in CEECs in comparison to EU15. The potential for impacts to become apparent is obviously constrained. It is also arguable that tensions and trade-offs intrinsic to Cohesion policy are particularly acute in the CEE context, making it more challenging to identify the most important CP goals. Notably, Cohesion policy prioritises 'convergence' but this can mean convergence of member state economies with the EU average or convergence of regional economies with the national average. The EU10 Member States continue to face the dual challenge of economic catch-up with EU development averages while tackling entrenched internal regional economic disparities.

Responding to these constraints, the relationship between the strategic quality and implementation capacity of Cohesion policy and institutional factors can be assessed in order to develop insights on the potential impact over the longer term. The impact of Cohesion policy on the economic development of specific territories can be assessed through the 'institutionalist lens'; that there are positive relationships at work between CP and specific institutional settings in CEE, and that, on the basis of this it is reasonable to conclude that over the long-term that Cohesion policy will encourage innovation, mutual learning and productivity growth.

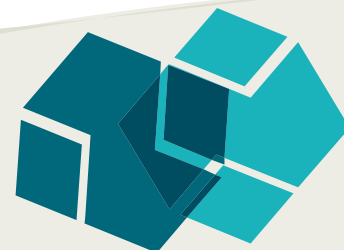
An assessment of CP programmes shows that **strategic quality** is evolving and, generally, improving (in terms of evidence base, analysis, strategic focus). Approval of the 2007-2013 programmes was straightforward across cases. There is also evidence of CP transfer as the programming process had some impact on institutional settings. This is apparent in the emergence of new regulatory frameworks (e.g. relating to ex-ante evaluations, public procurement etc.). There is also broader stakeholder involvement in developing programme strategies, raising awareness of the potential role of actors in development of a territory. The language of development policy has also changed, reflecting CP emphasis on Europe 2020 themes. There is awareness of new approaches beyond infrastructure support in strategic thinking (e.g. concerning the development of labour force skills to match regional economies). This suggests a potential impact of CP strategies on institutional settings in the longer-term. However, these examples of CP transfer to institutional contexts strengthening strategic quality were outweighed by negative interactions. Domestic institutional conditions have had adverse impacts on the quality of CP strategies themselves. CP programmes are often the only strategic economic development documents with substantial associated funding. In effect, there is often no important domestic framework for CP objectives to be transferred to. These limitations are compounded by weak institutional arrangements to coordinate CP strategies and their domestic equivalents. Efforts to transfer CP programming onto domestic institutional systems had detrimental effects: rather than contributing to stronger strategic integration, domestic institutional characteristics and tensions undermined the strategic quality of CP programmes. The 'silo' mentality of ministries made it difficult to prioritise strategic objectives: CP objectives were often divided among ministries and departments according to traditional ministerial portfolios or political bargaining rather than strategic logic. The division between national and regional administrative levels imposed limits on the size and type of projects at sub-national levels, constraining their strategic scope. The process of improving strategic quality through CP transfer was also impeded by the fragmentation of funding across a range of interventions, including a plethora of small projects, creating overlaps, administrative burden and scattered results. This reflects the tendency for local elites to compete

rather than cooperate in securing CP funding and restrictions to the potential for collective action, due to weak associative capacity (recognised in the literature as an institutional weakness). This constraint on CP transfer of strategic quality was strengthened by the use of competitive project calls in programmes.

There was also a mismatch between programme rhetoric and resource allocation. Strategic documents prepared in CEEC increasingly adopt a pro-Lisbon outlook 'on paper', referring to the need to modernise the economy, increase competitiveness, etc. However, when specifying the direction of activities (outlined by the allocation of resources for particular tasks), they echo the traditional regional policy paradigm, prioritising investment in infrastructure. Strategies allocate significant amounts for infrastructure rather than for Europe 2020 priorities because this is where the interests of managing authorities and beneficiaries coincide: beneficiaries get support for projects which have immediate, tangible effects; authorities get assurance of substantial, timely expenditure. Related to this was an overriding focus on financial absorption, conditioned by the decommitment rule, which stipulates that the Commission can withdraw funding if the finance committed to an EU-funded project was not spent within three years. The process of transferring CP principles to improve strategic quality suffered as programmes were left broad to encourage fast spending. A 'catch all' approach dominated in order to access maximum funding. CP success was measured mainly by the level of expenditure not strategic quality.

Similarly, there is evidence that the transfer of EU **administrative principles** can contribute to stronger more integrated systems for the delivery of regional policy. Overall, the process of implementing CP has contributed to expanding the size of public administration, including at sub-national levels where capacity was traditionally weak, increasing the level of technical capacity and skills. There is also evidence of the transfer of operational approaches from CP to equivalents in the administration of domestic interventions (e.g. use of monitoring systems). Moreover, the transfer of EU principles of subsidiarity and partnership were evident as some sub-national administrations and regional-level economic and social organisations are more embedded in the process of regional policy-making, although this is most evident where pre-accession reforms included the establishment of self-governing intermediate units.

However, the research also identified examples of domestic institutional constraints on CP transfer, mainly related to capacity issues. There were problems with understaffing and high turnover of employees. This was caused by several institutional factors: low civil service wages in comparison to private sector; the politicisation of the civil service (political flux was often tied to changes in staff); and, lack of continuity between pre-accession and post-accession periods. Further challenges were identified at different stages of the CP implementation process. There were problems in setting target values and indicators which could measure the results and impacts of the implemented measures. This is due to lack of experience and expertise. This was an issue in particular for complex, innovative interventions, including those supporting Europe 2020 aims. Capacity deficits were also evident in project preparation and selection and there are examples where the CP implementation system and the domestic institutional context have combined to create an inefficient, fragmented implementation system. The role of evaluation is emphasised in CP implementation but its transfer has also been constrained. Although evaluation structures are formally in place there is little learning from evaluation as the culture of evidence based policy is not yet part of domestic institutional traditions.



Implications for Europe 2020 headings

These findings have implications for Cohesion policy's support for Europe 2020 objectives and in turn for long-term sustainable development in CEECs. Performance under specific Europe 2020 themes has been moderate in comparison to other interventions in the 2007-2013 period. 'Innovation' is often defined broadly to allow spending on infrastructure. There is a similar focus on research infrastructure, technology parks, research centres and buildings or fixed assets. This can absorb investment and is beneficial in boosting 'demand side' growth and higher consumption. However, there are sustainability issues as infrastructure will have to be maintained after Cohesion policy investment ends. Moreover, this approach means less emphasis on 'supply-side' impacts that arise through the gradual build-up of "stocks" of infrastructure, human capital and R&D, reducing the beneficial output and productivity spillovers that can be generated both during and after the Cohesion Policy programmes. Problems with strategic quality Lack of a strategic vision mean that funding has tended to be distributed widely across large numbers of projects and this has had a particularly detrimental impact on some Europe 2020 headings where emphasis is placed on collaborative links between local authorities, businesses, research centres and academia.

Conclusions and recommendations

The significance of Cohesion policy for regional development is evident in all cases and argues for a continued role for investment in these countries. However, Cohesion policy funding is often spent according to short-term considerations, either responding to urgent problems or political considerations rather than long-term strategic development. Administrative staff are trained in the mechanisms of spending Cohesion policy funding efficiently (e.g. meeting eligibility requirements, regulations and 'decommitment' rules etc.) but often do not possess the knowledge in specific fields or policy areas that would allow them to assess the innovative worth of project ideas. Moreover, the focus has been on areas where authorities had implementation experience and where impacts are immediate and tangible, particularly infrastructure. Moves to more sophisticated interventions, particularly RTDI, and entrepreneurship but authorities have struggled to implement actions in this field. This highlights issues of strategic quality: stronger thematic concentration around Europe 2020 headings; strategic guidelines for the programmes should be more concrete and clearly specify objectives, structure of finances allocated, selection criteria etc.; a clear justification and logic to ensure that a learning process is also taking place; more autonomy and flexibility in implementation should be ensured within a focused and well defined strategic framework. In terms of implementation, there should be: simplification of the regulations (particularly around financial control); administrative capacity building for programme managers and stakeholders, particularly at sub-national levels; more flexible administrative processes for more complex, innovative projects. However, a basic issue is that. Experts are involved in the project selection process but there is insufficient weight given to strategic, innovative aspects. There is very limited tolerance of risk and there has to be a stronger emphasis on risk assessment in innovative projects. This requires more training for staff in the managing authority or implementing body.

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