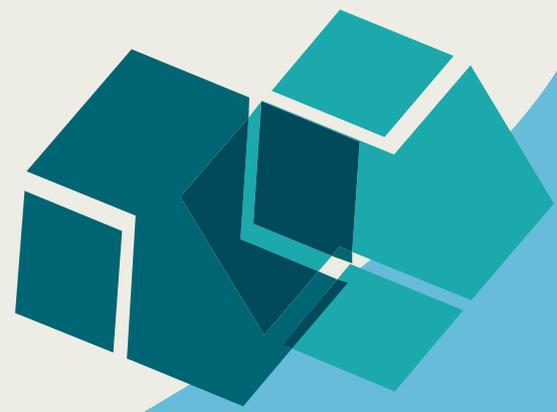




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Cohesion Policy Transfer and Institutional Change in Central and Eastern Europe

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Cohesion Policy Transfer and Institutional Change in Central and Eastern Europe

Abstract

Analysis of institutional factors has particular weight in the Member States of Central and Eastern Europe countries (CEEC). There is an extensive literature on the institutional challenges faced by EU10 countries as they prepared for accession, related to domestic legacies and the fact that the accession process occurred at a time of broader institutional flux associated with ongoing post-communist transitions. The problematic institutional context was highlighted as these countries launched their first Cohesion policy programmes, with institutional weaknesses, reform processes and instability noted. Within this context, the paper explores the relationship between Cohesion policy management and implementation and institutional change in CEE. From the perspective of policy transfer, it tests the argument that institutions are the key enablers of innovation, mutual learning and productivity growth and thus pave the way for the design and implementation of efficient economic development strategies. This paper explores the relationship between CP and two variables designed to assess the institutional setting (the quality of development strategies and the capacity for development policy management and implementation).

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1. Introduction

Historical institutionalism emphasises institutional factors in the process of policy transfer. ‘Hard’ or ‘formal’ institutions (laws and regulations, rights etc.) and ‘soft’ or ‘informal’ institutions (norms, traditions, conventions, networks etc.) can facilitate or limit policy transfer and the possibility of change. This relationship between institutional change and policy transfer is fundamental in regional policy debate (Rodríguez-Pose, 2013). The literature indicates that the contribution of regional policy to development is conditional on the capacity of institutions to design robust strategies and allocate resources effectively. Efforts to identify factors for persistent territorial disparities highlight that lagging areas often suffer from dysfunctional institutional structures, clientelism, corruption, with established local elites blocking innovation (Acemoglu and Robinson, 2000). Informal institutions in these places are often weak, resulting in low levels of trust and declining associative capacity, and restricting the potential for effective collective action. In such an environment where institutions are “inappropriate” (in either form or function), a region is likely to fail to break out of low-growth and low productivity traps. This draws in issues concerning policy transfer under EU Cohesion policy (CP). Studies have reviewed the complementarity and coherence of Community interventions with institutional contexts, identifying policy transfer through administrative learning and spillover effects on domestic systems. However, there are issues of causality, interaction and complexity. The ability of CP to have an impact on sustainable growth through prompting institutional change depends itself on the institutional setting. Studies have concluded that the contribution of regional policy to economic development is conditional on the capacity of institutions to design robust strategies and allocate resources effectively.

Such analysis of institutional factors has particular weight in the Member States of Central and Eastern Europe countries (CEEC). There is an extensive literature on the institutional challenges faced by EU10 countries as they prepared for accession, related to domestic legacies and the fact that the accession process occurred at a time of broader institutional flux associated with ongoing post-communist transitions. The problematic institutional context was highlighted as these countries launched their first Cohesion policy programmes, with institutional weaknesses, reform processes and instability noted. Within this context, the paper explores the relationship between Cohesion policy management and implementation and institutional change in CEE. From the perspective of policy transfer, it tests the argument that institutions are the key enablers of innovation, mutual learning and productivity growth and thus pave the way for the design and implementation of efficient economic development strategies. This paper explores the relationship between CP and two variables designed to assess the institutional setting (the quality of development strategies and the capacity for development policy management and implementation). It is based on case study research in CEE carried out under WP8 of the GRINCOH EU 7th Framework Programme and covered in more detail in the WP8 Task 3 case studies and synthesis report.

2. Methodology and analytical framework

The methodology aimed to provide new insights into policy transfer and institutional change in several ways:

- It focuses on the dialectics between general mechanisms of policy transfer and specific institutional settings. This reflects ‘place-based’ approaches in contemporary regional policy

and CP. Institutionalism emphasises the importance of place-dependent normative and cognitive institutions. Six case study programmes from the 2007-13 period were selected, involving over 80 interviews with programme authorities, beneficiaries and academics, including a mix of national and regional programmes in Poland, Estonia, Slovakia, Hungary and Romania.

- An analytical framework developed indicators to analyse strategic quality and administrative capacity in the exploration of CP transfer and institutional change. Much of the emphasis in the literature is on the administrative capacity of CEE administrative systems to absorb CP funding, neglecting to address the quality of interventions (Tosun, 2014).
- This framework emphasises objectives related to the Europe 2020 agenda. The literature stresses that existing institutions and policy approaches may limit policy transfer and the possibility of institutional change where there are significant gaps between policy paradigms. In CEE, the differences between traditional, equity-based regional policy approaches and pro-competiveness Lisbon and Europe 2020 agendas are striking.

3. Findings

3.1 Strategic quality and institutional factors

In the case studies, 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 evidence of CP transfer as the programming process had some impact on institutional settings.

- This is evident in the emergence of new regulations. One example, following on from CP approaches, is new domestic legislation requiring feasibility studies for large investment projects. In Poland, the January 2014 Act on the Principles of Development Policy established the role of the Unit in domestic development policy and the transfer of Cohesion policy practice to the domestic context is on-going (e.g. all domestic programmes with a budget of over 300 million PLZ are now obliged to carry out ex-ante evaluation).
- CP has also had an impact on 'softer' institutional aspects. Interviewees involved with regional programmes noted changes in approach to engaging with development issues among regional actors. Involvement in developing the programme strategy raised awareness of their potential role in development of the territory and improved 'steering'.
- The language of development policy has 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, examples of positive relationships were outweighed by negative interactions. Institutional conditions have had adverse impacts on the scope for transfer and on the quality of CP strategies:

- Transfer was constrained by the limited financial strength and legal status of domestic strategies. CP programmes are often the only strategic economic development documents with substantial associated funding.

- Financial and/or legal limitations are compounded by weak institutional arrangements to coordinate CP strategies and their domestic equivalents.
- The mapping of 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.
- Funding was divided 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 tendency was strengthened by the use of competitive calls in CP programmes. These aimed to increase effectiveness by supporting the choice of 'best quality' projects. However, projects were often designed and submitted separately in competition with each other, weakening strategic coherence. Fragmentation undermined RTDI interventions where emphasis is placed on collaborative links between local authorities, businesses, research centres and academia (see also Kasza, 2009).
- Strategic quality was impaired by a mismatch between programme rhetoric and resource allocation, which itself reflects domestic institutional conditions. Strategic documents prepared in CEE increasingly adopt a pro-Lisbon outlook 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. There was awareness of the disadvantages of using CP to support infrastructure in areas with low development potential, based on experience from southern European member states, but this approach has persisted. In this, domestic policy paradigms have influenced CP strategies rather than vice versa. Strategies allocate significant amounts for infrastructure rather than for 'Lisbon type' measures 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 stipulated that the Commission could withdraw funding if the finance committed to an EU-funded project was not spent within three years. 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 (see also Bachtler et al., 2013).

3.2 Administrative implementation & institutional factors

Overall, the positive institutional impacts of CP implementation are evident in the cases.

- CP implementation increased the level of technical capacity and skills within public administration. The size and capacity of public administration has expanded as a result of Cohesion policy implementation.

- There is evidence of the transfer of operational approaches from CP to equivalents in the administration of domestic interventions (e.g. use of monitoring systems). The transfer of CP organising principles has in some cases been credited with improving the overall effectiveness of public administration.
- Some sub-national administrations are more embedded in the process of regional policy-making, although this has only occurred where pre-accession reforms included the establishment of self-governing intermediate units.

However, the research identified examples of domestic institutional constraints on CP implementation. This concerns general capacity issues:

- There were problems with understaffing and high turnover of employees, especially between programme periods. This was caused by several institutional factors: relatively low civil service wages (in comparison to private sector); the politicisation of the civil service (political flux is often tied to changes in staff); and, lack of continuity between pre-accession and post-accession periods.

It also involves challenges 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. Output indicators tend to involve basic information that captures little of the strategic impact of the programme. This is an issue in particular for complex, innovative interventions, including those supporting RTDI.
- Capacity deficits are particularly evident in project preparation and selection and there are examples where the CP implementation system and the domestic institutional context have combined to create a fragmented implementation system.
- In most cases, domestic evaluation systems are weak and although evaluation structures are in place there is very little policy learning from evaluation as the culture of evidence based policy is not part of domestic institutional traditions.

4. Conclusions

The transfer of CP management and implementation procedures can arguably prompt positive institutional change and thus support long-term sustainable development. However, there are issues of causality, interaction and complexity that emphasise the need for nuanced analyses of policy transfer and institutional change in CP management and in broader academic debate. The ability of CP to support sustainable growth through prompting institutional change depends itself on the institutional setting. This is particularly relevant in CEE cases where the differences between domestic and EU institutional contexts and traditions are often significant. The significance of CP for regional development is evident in all case studies and policy transfer has prompted some institutional change. However, the long term impact on growth processes is uncertain and some of this can be explained by institutional factors. Thus far, CP funding has been mainly spent on 'hard' infrastructure. This is an understandable response to pressing issues in this field in CEE. However, it also reflects institutional limitations as programme authorities focus on actions where they have experience, where spending is absorbed and where results are quickly tangible. Moves to more sophisticated interventions, particularly RTDI, (key to long-term development in regional policy

debate) are underway but are hampered by institutional constraints, indicated in problems of strategic quality and administrative capacity.

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