Working Paper Series
GRINCOH
Growth-Innovation-Competitiveness
Fostering Cohesion in Central and Eastern Europe

Serie 8
Cohesion and its Dimensions

Paper No. 8

Synthesis Report: WP8. Cohesion Policy and its Components: Past, Present and Future

Martin Ferry*

* Policies Research Centre, University of Strathclyde

2015

www.grincoh.eu

This paper was funded under the FP7 project "Growth– Innovation – Competitiveness: Fostering Cohesion in Central and Eastern Europe (GRINCOH)" under the Programme SSH.2011.2.2-1: Addressing cohesion challenges in Central and Eastern Europe; Area 8.2.2 Regional, territorial and social cohesion. Project Nr. 290657

Martin Ferry, martin.ferry@strath.ac.uk
European Policies Research Centre, University of Strathclyde
www.eprc.strath.ac.uk

Please cite as:
Ferry M., (2015), 'Synthesis Report: WP8. Cohesion Policy and its Components: Past, Present and Future', GRINCOH Working Paper Series, Paper No. 8

Synthesis Report: WP8. Cohesion Policy and its Components: Past, Present and Future

Content

Introduction

The aim of WP8 was to research and analyse how different aspects of Cohesion policy influence processes of economic, social and territorial cohesion in CEECs. Cohesion policy is a vital source of funding as CEECs seek to overcome persistent structural deficiencies and embark on new development paths. This brings with it opportunities to expand the scope and impact of economic development interventions. However, it also introduces constraints, putting pressure on institutional systems to develop structures and processes to absorb the funds, to ensure that they contribute to strategic economic growth, and to maintain a clear vision for development. Should priority be given to external convergence with the EU (implying support of national drivers of economic growth)? Alternatively, should a pro-equity emphasis be placed on internal convergence amongst regions? Moreover, issues remain to be resolved concerning institutional capacity and the division of policy competences and resource allocation decisions, including for Cohesion policy. Against this background, WP8 explored how the evolving Cohesion policy agenda, and particularly EU2020 priorities, are influencing the pursuit of new development paths in CEECs. WP8 research was divided into 5 tasks and the results, covered in detail in associated GRINCOH WP8 outputs, are summarised below.

Assessing the conceptual evolution of Cohesion Policy

Task 1 explored the conceptual context for analysing the aims and priorities of EU Cohesion policy: what does it set out to do and what are the implications for policy priorities and trade-offs in CEECs? Different emphases have been placed on economic, social and territorial dimensions of cohesion. The EU2020 agenda highlights the role of Cohesion policy in responding to rapid globalisation, competitive pressures, population change, migration flows, climate change and energy security. Understanding the shifting, sometimes conflicting and contradictory rationale for Cohesion policy is an essential starting-point for any assessment of its role in CEECs. This task involved documentary research and interviews with policy-makers and stakeholders at EU and Member State levels.

This review highlighted the conceptual and methodological challenges facing efforts to measure the achievements of Cohesion policy. A range of quantitative and qualitative methods have been applied to measure Cohesion policy achievements, including in the CEECs, from different perspectives. These have assessed: the reduction of regional disparities; contribution to growth; impact in specific policy-fields; and, added value. However, up to now, no clear and unambiguous results have emerged. 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 tensions intrinsic to Cohesion policy's strategic objectives, territorial focus and administrative efficiency; the necessity to account for the exogenous influence (to Cohesion policy) represented by the national context; the need to consider the fundamental role played by domestic policies towards the achievement (or hindrance) of the goals of Cohesion policy; and, the difficulty of obtaining complete, comparable and quality data on programme achievements.

Another important finding from this review was that each of these challenges or constraints takes a specific form in EU10 Member States. An obvious difference is the limited timescale of Cohesion policy implementation in CEECs in comparison to EU15. This has some important implications. First, the long-term evolution of the concept of 'cohesion' has not been played out in the CEEC context to the same extent as in older Member States. Nevertheless, as noted above, the increasing prominence given to the 'competitiveness' agenda is apparent in Cohesion policy programmes in EU10. Second, the potential for impacts to become apparent is constrained by the short time-scale. This applies to the impacts of interventions and also to 'added value' or the potential for organisational principles or themes associated with programmes to become embedded in domestic systems.

It is also arguable that the tensions and trade-offs intrinsic to Cohesion policy are particularly acute in the CEE context. The EU10 Member States continue to face the dual challenge of economic catch-up with EU development averages and tackling entrenched internal regional economic disparities. In this context, should the strategic emphasis of Cohesion policy be on national convergence with EU and the territorial focus on capital regions or other centres of growth or on regional convergence with a territorial focus on less developed areas? The question of administrative efficiency is also pertinent in the CEE context. There is evidence that the transfer of EU administrative principles has contributed to the creation of a new, more integrated system for the design, delivery and monitoring of regional development interventions. However, there are strong challenges associated with the rapid assimilation of SF principles as the template for a previously constrained regional policy system. In the CEECs, substantial amounts of EU funding are being spent against a background of traditionally weak policy management and implementation systems and constrained domestic public expenditure. In terms of economic cohesion, research by Ismeri and Applica (2010) provides an assessment of national 'Expenditure for Development' (EfD), a concept designed to be consistent with spending under EU Cohesion policy. This affords a standardised basis on which to compare and contrast development expenditures in the Member States. Crucially, the Ismeri and Applica work provides an estimate of the EU contribution to EfD (see Table 1).

Table 1: Relevance of Cohesion Policy on national expenditure for development (annual average 2000-2006)

Country	Structural and Cohesion Funds as % of expenditure for development
Latvia	81.8
Lithuania	80.9
Slovakia	58.9
Estonia	55.3
Portugal	52.1
Poland	50.3
Greece	39.3
EU10	36.4
Hungary	29.7
Slovenia	21.7
Spain	20.5
Czech Republic	13.5
Malta	12.8
EU25	10.6
Cyprus	9.4
EU15	8.5
Ireland	7.5
Italy	7.4
Finland	6
Germany	5.2
United Kingdom	4.2
France	3.1
Sweden	2.9
Austria	2.6
Belgium	2.1
Denmark	1.9

Netherlands	1.3
Luxembourg	0.8

Note: Estimate calculated on total allocation and in relation to the period 2004-2006 for new member countries and EU25. ESF is not included in coherence with EfD calculation.

Source: Ismeri Europa and Applica Processing for DG Regio (2010), Distribution of Competences in relation to Regional Development Policies in the Member States of the European Union p187.

Generally, this illustrates a significant difference in the share of Structural and Cohesion Funds as a percentage of expenditure between EU10 Member States (36.4%) and EU 15 (8.5%). Latvia and Lithuania are prominent as the Member States with a particularly large share of Structural and Cohesion funds as a share of EfD. It should also be noted that some of the so-called 'Cohesion Countries' in the EU15 (notably Portugal and Greece) have shares of EU expenditure on EfD comparable to EU10. Finally, it is important to stress that the figures in Table 1 only cover the 2004-2006 period. In the 2007-13 period CEE Member States received considerably more Cohesion policy funding, thus the share of Cohesion policy in this expenditure is expected to have increased.

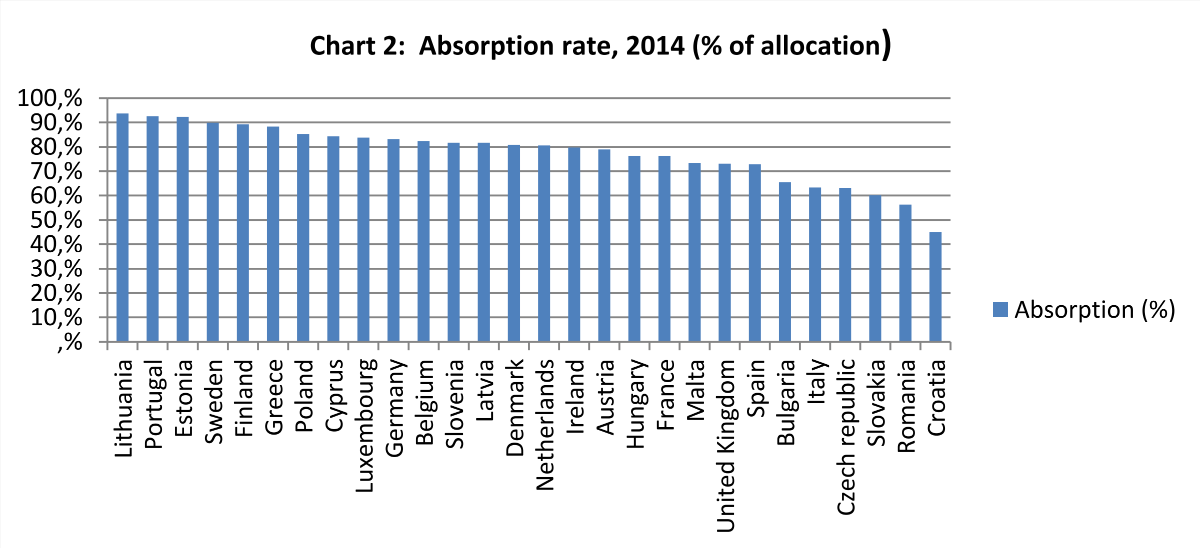
In this context, the administrative burden associated with Cohesion policy is significant. There is a danger that the scope and direction of regional development activities may be dictated less by strategic considerations than by the need to administer programmes quickly in order to absorb EU funds. In this respect, the experience of CEEC Member States reflects that of the 'old cohesion countries' in EU15 (including Ireland, Greece, Portugal and Spain) where the need to spend EU funding quickly prompted investments in higher for large-scale physical infrastructure, environmental improvements and local business and innovation infrastructure which provided short-term effectiveness. Most regions had good expertise in capital programmes and were able to set reasonable objectives which were attainable and which were then delivered. However, regions had difficulty with areas such as structural adjustment, business support, innovation and community development which required strategies, systems and capacity.

The implementation process involves the incorporation of some inherent ambiguities. As noted above, EU regulations on the delivery of regional development interventions are vague. While the principles of subsidiarity and partnership imply a decentralising process, the Commission's approach towards accession countries with relatively weak regional administrative capacities has included preference for a more centralised model of management, at least in the short-term.

Moreover, the impact of CP in CEECs, as in all Member States, is mediated by the domestic institutional and monetary environment. Economic development in these countries is increasingly drawn into international and global networks. The implicit 'development model' of the CEECs in the past two decades has been based on institutional, trade/FDI and financial integration with Europe and with global production networks. Changes in the sectoral profile of CEE economies, for example out of lower skilled activities into more sophisticated manufacturing and service sectors, changes the regional distribution of economic activity and draws regions into new competitive arenas at national, European and global levels. This obviously alters the environment in which Cohesion policy interventions operate. The connection between EU Cohesion policy and domestic regional policy is especially apparent in the evolution of policy instruments in EU10. Before their accession, all CEECs conducted their own stronger or weaker regional policies. Beginning in the 2000s, EU Cohesion policy started to influence these in a substantive way – national strategies of regional development were structured according to the principles of EU Cohesion policy, and the financial instruments – as weak as they were at that time – were designed broadly in line with EU assumptions. after accession, and especially during the current financial perspective. Polices have been almost totally subordinated to those agreed with the Commission, and domestic financial recourses have been used only to fulfil the additionality principle. Almost all of these countries are being relatively heavily financed by the Convergence objective, which implies that the funds arriving from the EU have to be spent on projects related to the operation of Cohesion policy. It is also important to note the constraints to assessments of Cohesion policy achievements and impact in EU10 Member States resulting from incomplete data. The difficulty of obtaining quality data on programme achievements is noted across Member States but the EU10 context is different. Over the past decade, there have been significant efforts to boost the capacity of systems for monitoring and evaluating the implementation and impact of Cohesion policy in CEECs. Nevertheless, these systems have in most cases been developed in a very short period of time and in the absence of domestic equivalents. Although progress in developing evaluation expertise has been marked, experience of monitoring and evaluation is still limited and this is often reflected in the quality, if not the quantity, of evaluation studies. Within this, it should be noted that Poland provides an exceptional case of significantly expanding evaluation capacity. Poland was the largest beneficiary of Cohesion policy funding in the 2007-13 financial perspective, prompting close scrutiny of the impact and efficiency of programmes at EU and national levels. This emphasized the importance of evaluation and was marked in the rapid expansion of the evaluation system in that period (reflected in the establishment of evaluation units in Managing Authorities at national and regional levels, a significant increase in the number and scope of evaluation studies, and concerted efforts to build capacity through training, conferences and support materials).

One of the most important methodological challenges facing CEECs (and EU 27) relates to the quality of overall CP implementation, monitoring and evaluation processes, where particular stress will be on coordination, and achieving planned results and impacts. For many countries and Managing Authorities this will involve a new set of requirements. For instance, up to now, data on the achievements of the CP are hardly comparable not only for countries but individual programmes, due to various reasons already discussed.

A final point to note is that although this review included a basic comparison between CEECs and older member States, the extent and nature of the challenges faced across the EU10 and the policy responses to these are increasingly diverse. This is linked to levels of economic development, the size of the country, economic structure, political landscape, administrative traditions and, most recently, the impact of the economic crisis. There is an ongoing process of divergence in the trajectories of different regional policy components in CEECs as domestic contexts reassert themselves following the immediate post-accession period. This emphasises the need to develop more 'fine grained' analyses of policy change and expand comparative policy studies within CEECs. There are various means of comparing Coheion policy performance across CEECs. As can be seen from Chart 2 , some CEE member states are among the lowest ranked countries in terms of the financial performance of Cohesion policy programmes (i.e. in terms of the absorption or spending of allocated Cohesion policy funding). Nevertheless, it is impossible to split CEE and EU15 Member States according to absorption rates: several CEE countries, including Lithuania, Estonia and Poland, feature among the top performers. This can be explained by improving institutional capacities and the emphasis placed by Managing Authorities on absorption of EU funds, on timely spending, auditing and monitoring in order to ensure fast and appropriate use and legitimate expenditures.



Source: DG Regio (2015) Percentage of available Cohesion policy funds paid out by the Commission, 2014 https://cohesiondata.ec.europa.eu/EU-Cohesion-Funding/Bar-chart-Funds-Absorption-Rate-Cohesion-Policy-20/g67v-zjyr?, accessed January 2015.

However, this measurement reveals little about the strategic quality of investment and the potential impacts or achievements of Cohesion policy beyond 'spending the money'. Other research has gathered comparative data on Cohesion policy administrative performance and capacity in CEE in the 2004-2008 period. According to this, the most efficient administrative performance (in terms of strategic programming, project selection, financial management, monitoring and evaluation) was found in Estonia, Latvia and Poland. The highest administrative capacity was found in Estonia and Lithuania.[1] Evidence from the GRINCOH case study programmes also indicates variation in terms of efficient Cohesion policy implementation in 2007-2013. On the one hand, financial and physical performance is assessed across all cases to be either strong or significant. Variation in this respect is not found between programmes but between different priorities. Notably, interventions under research, technological development and innovation are among the worst performers. On the other hand, there is variation between programmes in terms of strategic quality and implementation capacity, with Estonia and Poland the highest rated and particular challenges being faced in programmes in Hungary and Slovakia.

Analysing Cohesion policy lessons from earlier enlargements

Task 2 analysed the experiences of Member States who acceded to the EU under previous enlargements. The aim was to explore the methodological and conceptual challenges to assessing Cohesion policy noted in Task 1 and to draw lessons on the potential impact of Cohesion policy on economic, social and territorial cohesion and institutional change that could inform analysis of CEECs. The research selected five case study Member States and involved qualitative analysis of

[1] Bachtler, J., Mendez, C. & Oraze, H. (2013) 'From conditionality to Europeanization in Central and Eastern Europe: Regional policy performance and administrative capacity', *European Planning Studies*, doi:10.1080/09654313.2013.772744.

strategic documents, evaluations and reports as well as interviews (20 interviews – four per case study) with key policy-makers and stakeholders. The five case studies were drawn from previous enlargements (Spain, Portugal, Austria, Finland, Sweden). Task 2 assessed Cohesion policy achievements in the case studies under several headings. In terms of territorial convergence, evidence from the case studies on Cohesion policy achievements under this heading is weak. At best, research indicates that Cohesion policy has contributed to territorial convergence only at the EU level. On the other hand, countries have experienced a degree of territorial polarisation in which the more dynamic capital regions have seen the greater part of the economic development. These weak results stem, in part, from the methodological challenges involved in measuring impact. Also, in some cases, the level of funding was deemed by evaluators to be too limited to address the forces driving polarisation. It should also be noted that where Cohesion policy has been used to change the development paradigm in less developed regions (as in Finland and Sweden) impacts in terms of convergence will only be noticeable in a much longer timescale. However, other factors have also played a part in limiting impact on convergence or even contributing to territorial imbalances. Evaluations, for instance in Spain, have found that a thematic focus on infrastructure investment has hindered processes of convergence at Member State level. An important exception is the case of Austria, where studies have indicated a significant 'catching up' process of less developed regions due to Cohesion policy support. One of the reasons for the good performance is believed to be the creation of regional intermediary facilities and decentralised structures, which reduced institutional deficits at the regional level.

Under the heading of growth, macroeconomic modelling suggests that where levels of Cohesion policy spending have been significant either in absolute terms or relative to domestic GDP, macroeconomic growth effects have been important. However, econometric analyses are hindered by issues of causality, measurement error and accounting for potentially important variables such as spatial spillovers. Data availability is another challenge, particularly at the regional level. As a result, evidence is often inconsistent, and conclusions vary according to the methodology used, the time period considered or the unit of analysis. It is important to stress that this kind of analysis must be accompanied by assessments of the type of growth Cohesion policy is supporting. For instance, 'demand side' growth driven by Cohesion Policy spending on investment projects creates higher investment, higher consumption and higher levels of imports. However, its impact is transitory, lasting only as long as there are significant amounts of Cohesion policy available. 'Supply-side' impacts arise through the gradual build-up of "stocks" of infrastructure, human capital and R&D, and beneficial output and productivity spillovers.

Evaluations of Cohesion policy achievements under headings emphasised under Europe 2020 (e.g. innovation, R&D, entrepreneurship and human capital) RTDI produced important conclusions. On the one hand, there is evidence that EU funding has provided an important source of investment in fields such as RTDI, particularly in countries such as Spain where alternative funding sources are limited. According to evaluations, it has also contributed to the development of supporting infrastructure and strategic planning for RTDI activities. Moreover, Cohesion policy has played a part in the development of networks or clusters of SMEs, universities and other research institutes. In some of the case studies, this type of support is credited with contributing to structural change in regional economies, toward the creation of knowledge intensive economies (as in the case of Austria). However, there are significant caveats. First, the impact of capacity enhancements in RTDI for regional economic development are difficult to measure. Disaggregating the role of Cohesion policy from domestic and global factors in the changing structural orientation of regional economies is challenging. Moreover, the deadweight effect of these activities is potentially significant. It is also worth noting that the level of involvement of the private sector in Cohesion policy-funded RTDI projects has been criticised. As with other Cohesion policy projects, the high administrative requirements linked to RTDI projects is seen as a disincentive for firms. Finally, the challenge of using such initiatives to pursue cohesion-oriented goals has been highlighted. Although Cohesion policy has proved to be an important source of RTDI investment in less developed areas with limited critical mass in this field, evaluations indicate that the strongest contributions to innovation come from projects in more developed areas that build on existing strengths and capacities.

The review of the case studies identified several examples of 'added value' through administrative learning and 'spillover' effects on domestic systems and the related innovation and efficiency improvements. The 'added value' tended to evolve across programme periods with effects declining as management and implementation experience increased. Moreover, there were cases of 'detracted value', particularly concerning tensions in domestic/Cohesion policy implementation arrangements and the complexity of Cohesion policy administration. So, for instance, Cohesion policy boosted regional policy funding and status in the initial programming period in Austria. It prompted the establishment of new institutional structures for regional policy implementation, including at sub-national levels in Finland and Sweden. Generally, the initial period of implementation was often marked by administrative complexity, lack of experience and the pressures associated spending the money. But subsequently, 'added value' could be identified in: sub-national capacity building; in new thematic impulses and in improved management of regional development funding. At the same time, there is evidence of 'detracted value', for example, concerning tension between domestic and EU development policy systems, reflected in the emergence of onerous financial control and audit arrangements. Moreover, added value effects decrease over time, while administrative effort often increases.

Task 2 research attempted to identify those factors that can explain CP performance. This included the scale of domestic spending on economic development. There were clear differences between the case studies in this respect. In non-Convergence Member State case studies, Cohesion policy is an increasingly minor proportion of spend. For this reason, it is increasingly viewed as complementary to domestic policy. For instance, in Finland Cohesion policy has provided an additional, rather than fundamental, financial instrument to complement mainstream, domestic RTDI interventions. In contrast, in countries such as Spain, where the share of Cohesion policy in development spending is high, the impact of Cohesion policy on shifts in development policy agendas has been fundamental. Expenditure on R&D and innovation has doubled in the context of major cuts in domestic funding.

There was also evidence of quality of governance having an impact on Cohesion policy achievements, particularly for achievements under policy fields that are prominent in the Europe 2020 agenda (innovation, R&D, entrepreneurship and human capital). According to evaluations, there were clear differences in achievements under this heading between Spanish regions, largely due to the pre-existing situation. Effectiveness was lower where political and social awareness was limited and the lack of pre-existing infrastructures and networks was deemed important. There was no strong evidence of a direct link between Cohesion policy effectiveness and the extent of decentralisation in the case studies. However, the cases include some interesting insights. In unitary Finland and Sweden, as well as in federal Austria, the implementation of Cohesion policy is credited with contributing to the establishment of stronger sub-national institutional structures and processes. In these cases, the rationale and objective of decentralisation processes was to strengthen Cohesion policy effectiveness.

Looking at the issue of thematic content and concentration, a basic finding was that there has been a shift in thematic orientation across programming periods away from improvement of transport and environmental infrastructures towards productive activities especially among small firms and there is increased expenditure on technology and innovation. This shift reflects the increased focus on the Lisbon agenda and Europe 2020 and changes in domestic development priorities. But is also reflects negative appraisals of Cohesion policy effectiveness that differentiate between transitory 'demand side' growth and longer-term 'supply-side' impacts. For instance, in Spain evaluations have found that the initial implementation phase had positive effects on unemployment. Nevertheless much of this was due to short-run demand effects, in the form, for example, of a temporary boost to construction. There is also increased thematic concentration of Cohesion policy investment in the member state case studies. Again this reflects new Cohesion policy principles but also evaluation evidence. For instance, in Finland studies concluded that the broad, sometimes unrealistic objectives of programmes had limited their effectiveness.

In terms of programme architecture, it is difficult to make an explicit connection between the extent of decentralised Cohesion policy implementation arrangements on the basis of the case studies. However, some points are worth noting. In Finland, Sweden and Austria, the implementation of Cohesion policy involved the creation of sub-national implementation structures and processes. These have been assessed to have facilitated the effectiveness of the programmes by taking territorial specificities into account, most notably under the heading of RTDI. Finally, as already noted, achievements under 'added value' have also been apparent where decentralised arrangements for Cohesion policy implementation have contributed to a stronger sub-national dimension to the governance of broader development policy (e.g. Finland, Sweden). There is evidence that maturity and continuity in Cohesion policy administration has influenced effectiveness in the member state cases. Under 'added value', the potential for organisational principles or themes associated with programmes to become embedded increases the longer programmes have been in operation. An evolutionary cycle can be detected in the generation of added value among programmes, including accommodation, innovation and consolidation phases. Although organisational instability can have a negative influence on Cohesion policy effectiveness (through loss of skills, experience and continuity) this is not automatic. Organisational change can facilitate Structural Funds implementation and effectiveness when adapting in response to implementation issues. The Finnish regional reform project at the beginning of 2010 slowed down programme implementation in the short term, although the problems have now largely been overcome. Indeed, the reforms have also strengthened regions and their will for cooperation.

Overall, Task 2 research indicated that Cohesion policy operates within the constraints of national policy/institutional contexts, administrative capacities at national and regional levels and the state of knowledge at the time. Cohesion policy funding has been spent on the most urgent problems although this may not have been the best way of spending from the perspective of long-term strategic development. Initially at least, there was a tendency to favour spending money in areas where authorities were used to intervening such as infrastructure and business support; they struggled with the more sophisticated interventions like promoting an entrepreneurship or innovation culture. The quality of monitoring data means that it is extremely difficult to quantify achievements in these latter areas. Data on achievements is uneven and expenditure date is time-consuming to collect. This situation is likely to be similar if not more challenging in the CEE context.

Analysing Cohesion policy and institutional change in CEEC

Task 4 involved analysis of the role of Cohesion policy in processes of institutional change in CEECs. This included retrospective analysis of the contribution of Cohesion policy administration systems to the broader development of institutional capacities and performance and an up-to-date assessment, focusing on the institutional challenges associated with specific policy sectors related to Europe 2020 (RTD, innovation, business support) and on the process of transfer or spillover to domestic CEEC systems. The aim was to develop an analytical framework that could be applied to case study research in Task 3.

The relationship between institutions and economic development has become a fundamental issue in regional policy debate, prompted by disputes over the impact of regional development policies and the search for new factors or dynamics that can explain growth and development patterns beyond traditional analysis of physical and human resource endowments, trade or technology transfers. Institutionalist literature argues that the contribution of regional policy to economic development is conditional on institutional settings. Specific institutional endowments, both 'hard' or 'formal' institutions (laws and regulations, rights etc.) and 'soft' or 'informal' institutions (norms, traditions, conventions, networks etc.), can facilitate development processes and the prospects of long-term change . But the role of institutions is not always and everywhere positive. Institutions can have a negative influence on regional development in a variety of ways. These include: unfunded mandates when they are given or accept responsibility without resources; excessive bureaucracy, institutional lock-in and rigidity hampering flexibility and responsiveness; duplication and fragmentation stimulating competition for resources; capture by elite actors and rent-seeking by particular interest groups; and, corruption.

The research identified key headings to assess the interaction between Cohesion policy and institutional factors: strategic quality and implementation capacity (i.e. focusing on the strategic design and administrative implementation of development programmes). Under these broad headings, the analytical framework developed several indicators to facilitate comparative research in Task 3:

Strategic quality and institutional factors

The argument linking the strategic quality of Cohesion policy with institutional factors is two-sided: Cohesion policy development strategies are anticipated not only deliver greater economic development but also transform the institutional setting itself (Rodríguez-Pose, 2013). Potentially, Cohesion policy programme strategies can have an impact on 'hard' and 'soft' institutional aspects (e.g. introducing new regulations or conventions for rigorous strategic analysis, strategic environmental assessments, feasibility studies or encouraging new norms, conventions or networks, 'new ways of doing things', a focus on multi-annual strategic perspective, participative approaches to programming etc.). However, existing institutional contexts impact on the quality of development strategies, conditioning how a strategy is developed and articulated. Existing institutional arrangements can determine the level of expertise and experience available for the articulation of the strategy. The institutional context has an impact on the quality of data available to inform the strategy and it can determine the input of different actors and interests into the development of the strategy. Institutions and strategy can undermine one another through 'mismatch': where strategies are developed with little regard to the institutional context.

- **Quality of the programming process.** The first indicator of strategic quality refers to the quality of the process of strategic programming. The quality of development strategies depends not only on the plans themselves but on how they are produced: the inclusion of the relevant stakeholders, the generation of knowledge and the basis this can provide for managing risks over the course of the investment cycle and beyond. In the context of Cohesion policy, where the principles of partnership and subsidiarity are emphasised in, effective programming arrangements are vital in order to bring together stakeholders, generate knowledge and co-ordinate inputs from different sources in a timely manner. Drawing a wide range of interests into the administration process creates a stronger sense of accountability or 'ownership' of and commitment to policies among stakeholders. Strategic quality is boosted by the explicit linkage between the strategy and those actors directly related to its objectives and priorities.

- **Efficient negotiation and approval.** Efficient programming is particularly important under Cohesion policy as it involves detailed negotiations between Commission, Member States and, often, sub-national authorities with pressure to launch programmes as quickly as possible so that funding can be released.

- ***Quality of programme documents.*** Of course, the strategic quality of the programme documents themselves is crucial. Two qualities are emphasised in the literature: relevance of strategic objectives to the specific needs of the programme area; and realism and clarity about what can and should be achieved. According to the literature, good quality strategies are tailored to the specific programme contexts. Moreover, good quality development strategies include a focus on results: strategic quality relies on a realistic appreciation of what can be achieved. Attention should be given to ensure that priority-setting is not driven by the inertia of out-of-date previous plans and assumptions, or by narrow political considerations and clear, realistic and measurable indicators and targets should be set accordingly.

Administrative implementation & institutional factors

The second heading concerns the quality of policy implementation: the ability to develop policy and produce and deliver public goods and services. Again, the argument relating Cohesion policy implementation quality to institutional factors is two-sided. Cohesion policy operates according to 'shared management' where implementation is delegated to the Member States. Thus, EU administrative principles inevitably have direct consequences for the Member states' own policy machinery and tools and not just those of the Commission. Cohesion policy can change or improve the quality of institutions. This can occur, for example, by: prompting changes to legal or regulatory frameworks, providing an overall boost to administrative capacity (new organisations, increased staff); improving coordination across and between institutional frameworks and administrative levels (through the model of multi-level governance and the principle of subsidiarity) by increasing transparency (through monitoring and reporting) by limiting clientelism and rent-seeking (through rigorous approaches to project generation and selection); and, by promoting openness to new ideas and agents (through the partnership principle). The 'Europeanisation' literature notes the scope for transfer of institutional practices where Cohesion policy management and implementation systems are subsumed into domestic systems . In CEECs, it is arguable that, rather than the domestic system subsuming Cohesion policy implementation practices, domestic regional policy systems are assuming them: domestic regional development activities are supplementing, or have already been supplanted by, EU organisational principles . Inverse institutional integration has taken place in which the national institutional system was conditioned by institutions that were created for receiving and administering EU funds. Conversely, an enabling domestic institutional framework and the existence or development of institutional capacity and leadership is crucial to successful programme implementation. differences in domestic quality of governance, in the legal, regulatory and political environments and in the allocation of decision-making powers for development policy and Cohesion policy across different administrative levels, influence the capacity to implement programmes effectively. Poor institutional settings mean that development policies often fail to be implemented correctly or at all.

- ***Management.*** A general indicator of administrative capacity relates to the quality of public management staff and structures. This assesses technical competence, the availability of trusted and professional state employees, coordination mechanisms, and effective reach across the territory concerned and social groupings. These institutional challenges and dilemmas were evident at different stages of the CP implementation process:

- **Project preparation and selection.** The process of project preparation and selection is crucial in deciding the achievements of Cohesion policy: it is at this stage that decisions are made on the interventions that Cohesion policy funding will support.

- **Financial control, audit.** The emphasis placed on the financial management, control and audit of Cohesion policy offers operational benefits, potentially boosting the administrative capacity of bodies implementing the programmes. The Commission's stated approach to financial control and audit that it sought to improve effectiveness, focus on performance and provide more 'value-for-money' training in financial management, audit and control.

- **Monitoring and evaluation.** The monitoring and evaluation obligations of Cohesion policy (which are in some cases more rigid and comprehensive than those in use in the domestic policies of Member states) is increasingly seen as crucial to its long-term impact. A range of benefits can be identified. By stimulating a process of learning, identifying aspects of Cohesion policy that deliver added value and feeding this information back into the policy process, monitoring and evaluation activities provide a means through which to improve the quality, relevance and impact of programming. The transparent provision of periodic and up-to-date information on the performance of programmes also contributes to ensuring the accountability, and, ultimately, legitimacy of EU expenditure. Finally, in some countries monitoring and evaluation capacity is being extended to strengthen ownership and partnership amongst actors with a stake in programmes. In fact, monitoring and evaluation is seen as one of the clearest examples of policy learning between Cohesion policy practice and domestic policy systems. In several cases, Cohesion policy has been credited with growth in the status attached to monitoring and evaluation, reflected in the number and quality of studies carried out and the expansion of overall evaluation capacity.

Assessing Cohesion policy achievements in specific territories

Task 3 assessed the achievements and effectiveness of specific Cohesion policy programmes in selected CEE cases, particularly those actions emphasised by the Europe 2020 agenda and dealt with in other GRINCOH Work Packages (business development, R&D and innovation linked to research in

WP3; labour market issues covered in WP4). Case studies were drawn from territorial typologies based on the database developed in GRINCOH WP6. The research involved analysis of a single programme being implemented in the 2007-13 financial perspective. 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. The case studies covered three main issues. First, the effectiveness or achievements of these programmes was assessed. This involved analysis of the achievements and performance of the programme both generally and under a selected Europe 2020 heading. As noted in Tasks 1 and 2 of WP8, the quality of monitoring data means that it is extremely difficult to quantify Cohesion policy achievements, particularly in policy fields related to the Lisbon or Europe 2020 agendas where impacts may become tangible only in the medium or long term. Data on achievements is uneven and expenditure data is time-consuming to collect. While taking these limitations into account, this analysis of Cohesion policy effectiveness has three dimensions (financial performance, physical performance and achievements under 'added value').

Responding further to these constraints, Task 3 explored the relationship between CP and institutional factors in order to develop insights on the potential impact of CP over the longer term. the relationship between institutions and economic development is prominent in current regional policy debate. WP8 Task 4 developed an analytical framework to allow comparative assessment of the interplay between Cohesion policy and institutional endowments in specific contexts and the influence this has on development processes. The hypotheses were that: 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.

Thus, beyond an assessment of the current achievements of the case study programmes, the research included two additional headings designed to assess the relationship between CP and institutional factors in influencing development processes. The first involves the strategic quality of Cohesion policy programmes. From Task 2 research, it is clear that the quality of domestic and EU development strategies has a significant bearing on Cohesion policy effectiveness and achievements. There are some fundamental requirements for designing a good strategy and these pre-conditions need to be in place, especially if the Commission is expecting progress in policy areas highlighted by Lisbon/Europe 2020 agendas. The second concerns an assessment of the administrative capacity of Cohesion policy management and implementation systems in programme Managing Authorities (MAs) and implementing bodies (IBs). Administrative capacity is an important factor in accounting for Cohesion policy outcomes, particularly as programmes have shifted towards Lisbon/Europe 2020 policy themes that are more challenging to implement. Issues relate to human resources, including high levels of staff turnover in public administration, and organisational change, including the reorganisation of ministries, departments and agencies involved in Structural Funds. There is evidence that maturity and continuity in Cohesion policy administration has influenced effectiveness in the Member State cases.

Achievements of the case study programmes

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. CEE 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 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'; hypothesising 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. Key headings to assess the interaction between Cohesion policy and institutional factors are strategic quality and implementation capacity (i.e. focusing on the strategic design and administrative implementation of development programmes).

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 goals: 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. This emphasis on absorption, alongside strategic vagueness and the rigidness of control, has produced scattered effects and the overall impact has been diminished at both regional and national levels. Greater effectiveness could be achieved by reversing these emphases: more autonomy and flexibility in implementation should be ensured within a focused and well defined strategic framework.

There is some evidence that the transfer of EU **administrative principles** can contribute to stronger more integrated systems for the delivery of regional policy. This is demonstrated in regulatory changes introduced at the prompting of Cohesion policy. Overall, the process of implementing CP has contributed to expanding the size of public administration, including at sub-national levels where capacity in several CEECs 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, growth of evaluation capacity). 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. It should also be noted that Cohesion policy management and implementation systems are often at the forefront of new technology and innovative approaches to public management.

However, the research also identified examples of domestic institutional weaknesses that constrained the implementation of Cohesion policy, limiting the developmental impact of the funds. These included: lack of continuity and coherence in the implementation of policies by institutions; institutional instability; lack of capacity, and gaps in multi-level governance frameworks. There were problems with understaffing and high turnover of employees. This was caused by 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. The research also indicated institutional barriers that created coordination issues between central ministries and departments, between national and sub-national tiers and between Cohesion policy Managing Authorities and stakeholders: political rivalries, sub-optimal allocation of tasks and resources between administrative tiers and limited trust and associative capacity.

These institutional challenges were evident at different stages of the Cohesion policy management and implementation process. Overall, the quality of Cohesion policy project preparation and selection has improved in terms of accountability and transparency. However, the capacity of these systems to strengthen the strategic impact of Cohesion policy is undermined by weaknesses and uncertainties in domestic regulatory frameworks, lack of experience in programme authorities and low levels of trust and risk aversion in prevailing administrative and political cultures. The emphasis placed by the European Commission on the 'compliance model' for the financial management of Cohesion policy, reflected in multiple audit procedures, is evident across the EU. However, it is particularly noticeable in CEECs where institutional weakness has prompted an excessive preoccupation with compliance at the expense of strategic performance. This in turn has led to increased bureaucracy and administrative burdens for programme authorities and beneficiaries and a tendency to avoid risky or innovative projects. Finally, significant developments are apparent in monitoring and evaluations systems for Cohesion policy. The capacity of these systems has grown rapidly over the past 5-10 years, demonstrated by the increasing level of human resources dedicated to these tasks and the quality of monitoring data and evaluation studies. Moreover, there is evidence from the case studies that these practices are being increasingly applied to domestic, non-Cohesion policy fields. Nevertheless, experience of monitoring and evaluation is still limited. There are problems in setting target values and indicators which could measure the results and impacts of some interventions. 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. It is also important to differentiate between the rapid establishment of formal monitoring and evaluation structures and the long-term development of a culture that utilises the results produced to improve policy-making. Although evaluation structures are formally in place there is as yet little learning from evaluation as the culture of evidence based policy is not yet part of domestic institutional traditions.

Implications for Europe 2020 headings

The research confirms recent studies that have focused on the role of institutional endowments in enhancing development investment. These conclude that the impact of development initiatives in regions is constrained by the variable endowment of regional human and social capital, behavioural modes, values and trust. This applies also to recent empirical analysis of CP impact in CEE: the extent of impact depends on the type and amount of territorial capital possessed. Labour market policies are only effective when there is in the region a presence of high value functions; entrepreneurship, innovation, information and telecommunication policies are only effective when the region is endowed with human capital, while their impact in regions not endowed is not positive. These findings have implications for Cohesion policy's support for Europe 2020 objectives and in turn for long-term sustainable development in CEECs. Financial and physical 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 and 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.

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 the most pressing issues 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. 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.

Assessing Cohesion policy's prospects as a function of the EU budget's future

The conclusions of Task 3 pose fundamental questions for the spatial and thematic orientation of future Cohesion policy investment in CEECs. Who is Cohesion policy for, where should it be invested, what should it be invested in and how should it be implemented? Within this context, Task 5 provided an assessment of the evolution of the recent reform and its implications for the allocation of Cohesion policy funding in the future. This Task was divided into two pieces of research.

The first piece analysed budgetary aspects of Cohesion policy within the overall framework of the EU budget from the perspective of new member states from Central and Eastern Europe. The main objectives of the study were first, to analyse past budgetary trends and the attitude of various groups of countries towards this policy, second, to assess position of Cohesion policy within the 2014-2020 medium-term financial framework of the EU, and third, to discuss alternative scenarios for future Cohesion policy within the framework of the EU budget in the post-2020 period. This included a discussion of the Cohesion policy as the main distributive policy instrument of the EU budget and presented evolution of the policy prior to the Eastern enlargement. The study then focused on the role of Cohesion policy within the framework of the EU budget from the point of view of the new Member States after their accession to the EU in 2004/7. This included analysis of EU accession arrangement for the 10 Central and Eastern European countries covering the 2004-2006 period as well as on presentation and analysis of the "country envelope" principles for allocation of cohesion funds under the 2007-2013 and 2014-2020 medium-term financial perspective negotiations. The study included discussion of responses to a questionnaire survey designed and carried out for specific purposes of this study which covered policy practioners and academic experts from across CEECs. It also provided a comparative analysis of the four Cohesion policy country case studies (Estonia, Hungary, Poland and Slovenia). Finally, selected features of the future Cohesion policy budgetary conditions were presented and related scenarios outlined. The research results highlighted that the likelihood of scenarios other than maintaining the 'status quo' most probably will not depend on the behaviour of CEECs. Despite their strong and explicit interest in securing sufficient resources from Cohesion Policy for themselves, administrative and academic experts with their non-negligible influence on political decisions of their prevailing governments cannot be seen as stumbling block in the way towards reforms for a modernized and more rule based EU budget. A resolute shift towards increased EU budgetary support for projects with more European value added and more future orientation than today, a fair and transparent allocation of net financial positions will be far more determined by the outcome of multifaceted interest reconciliation among 'major players' of the old EU 15.

The second piece of research under Task 5 provided an assessment of the evolution of the recent reform and its implications for the allocation of Cohesion policy funding in the future. It charted the early discussions immediately following the 2006 reform of Cohesion policy and reviewed the implications of the crisis and the emergence of the Europe 2020 strategy. It then examined the Commission's proposals for the 2014-20 MFF and charted the negotiations over the 2011-13 period culminating in the February 2013 Council agreement and the subsequent Interinstitutional Agreement with the European Parliament and ECSC. The paper then looked at the scenarios for post-2020 Cohesion policy, concluding with an assessment of the implications for Central and Eastern European countries.

Looking first at the 2013 reform of Cohesion policy, the geographical distribution of resources within the Cohesion policy allocation is interesting. Table 3 sets out Cohesion policy allocations by Member State for the 2014-20 period.

Table 3: Cohesion policy allocations by Member State 2014-20 (€m 2011 prices)

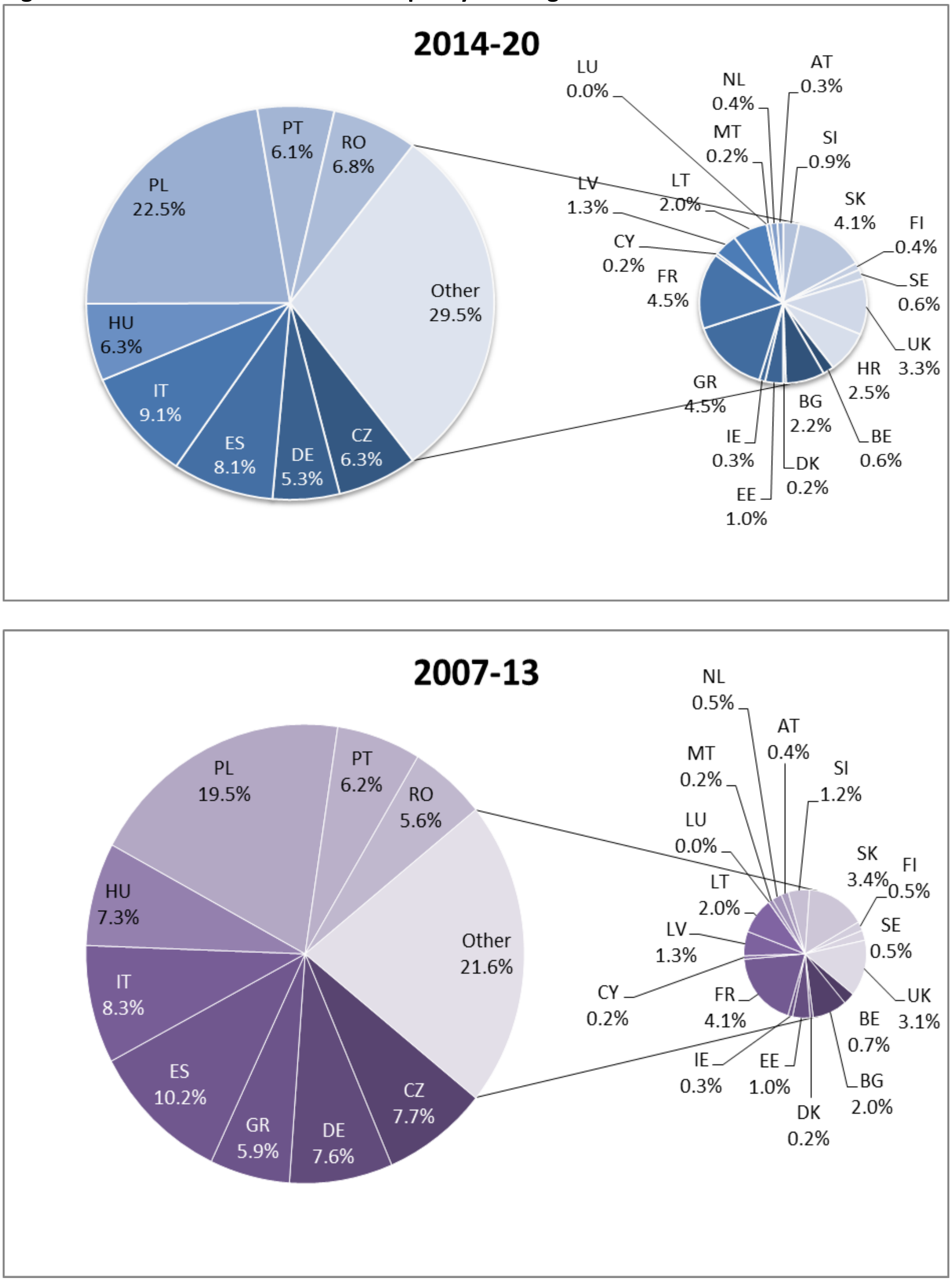
	Cohesion Fund	LDR	TR	OMR & LPD	MDR	ETC	YEI	Total
BE			958		865	230	33	**2,087**
BG	2,376	4,607				145	60	**7,188**
CZ	6,539	13,599			78	297	15	**20,528**
DK			64		229	198		**492**
DE			8,719		7,583	845		**17,146**
EE	1,119	2,190				48		**3,358**
IE					866	148	71	**1,084**
GR	3,396	6,398	2,097		2,299	203	159	**14,551**
ES		1,851	11,735	430	10,471	540	1,026	**26,054**
FR		3,136	3,914	394	5,841	953	221	**14,458**
IT		20,262	1,000		6,982	994	358	**29,596**
CY	285				201	29		**514**
LV	1,407	2,732				82	40	**4,261**
LT	2,137	4,175				99	52	**6,464**
LU					39	18		**56**
HU	6,291	13,405			414	316	55	**20,481**
MT	227		439			15		**681**
NL					905	341		**1,246**
AT			65		820	225		**1,110**
PL	24,189	45,756			2,010	613	178	**72,746**
PT	2,990	14,956	231	103	1,144	107	149	**19,680**
RO	7,226	13,724			403	396	136	**21,886**
SI	935	1,130			760	55		**2,881**
SK	4,346	8,459			40	195	84	**13,124**
FI				271	908	141		**1,320**
SE				184	1,351	299	8	**1,842**
UK		2,118	2,326		5,126	757	354	**10,682**
HR	2,667	5,206				128		**8,001**
Total	**66,130**	**163,704**	**31,550**	**1,382**	**49,336**	**8,419**	**3,000**	**323,520**

Note: These figures exclude allocations to interregional cooperation (€500m) and Technical assistance (€1126m) which are not disaggregated by Member State.

Source: Inforegio – see http://ec.europa.eu/regional_policy/what/future/eligibility/index_en.cfm and EPRC calculations for the distribution of the Youth employment Initiative (and adjusted totals).

As would be expected, this distribution represents considerable continuity; Poland, for example, continuing to be the single largest beneficiary of the funds (see Figure 4).

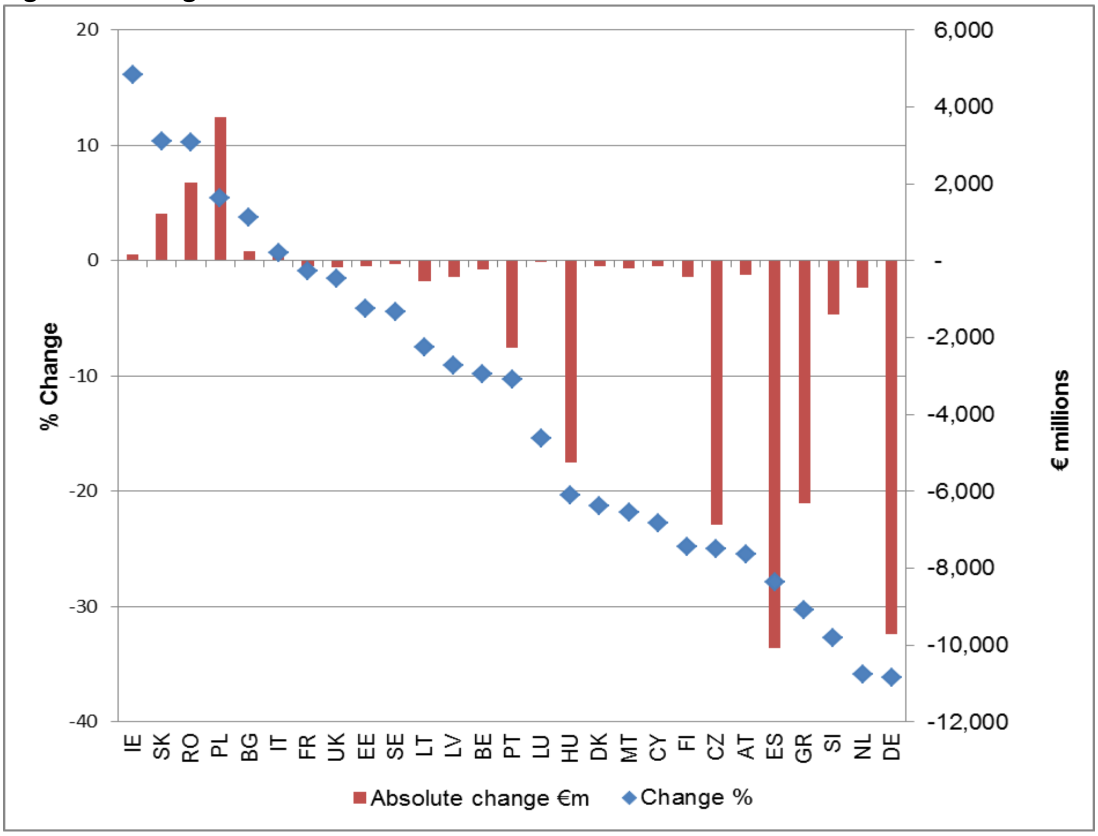
Figure 4: National shares of Cohesion policy funding in 2007-13 and 2014-20



Source: EPRC calculations from 2007-13 commitment appropriations and DG Regio data for 2014-20.

On the other hand, comparing the 2014-20 allocations with 2007-13 reveals marked shifts for specific Member States, including some from CEE. Differences between current (2007-13) and future funding (2014-20) allocations are illustrated in Figure 5.

Figure 5 : Changes in financial allocations from 2007-13 to 2014-20



Source: EPRC calculations.

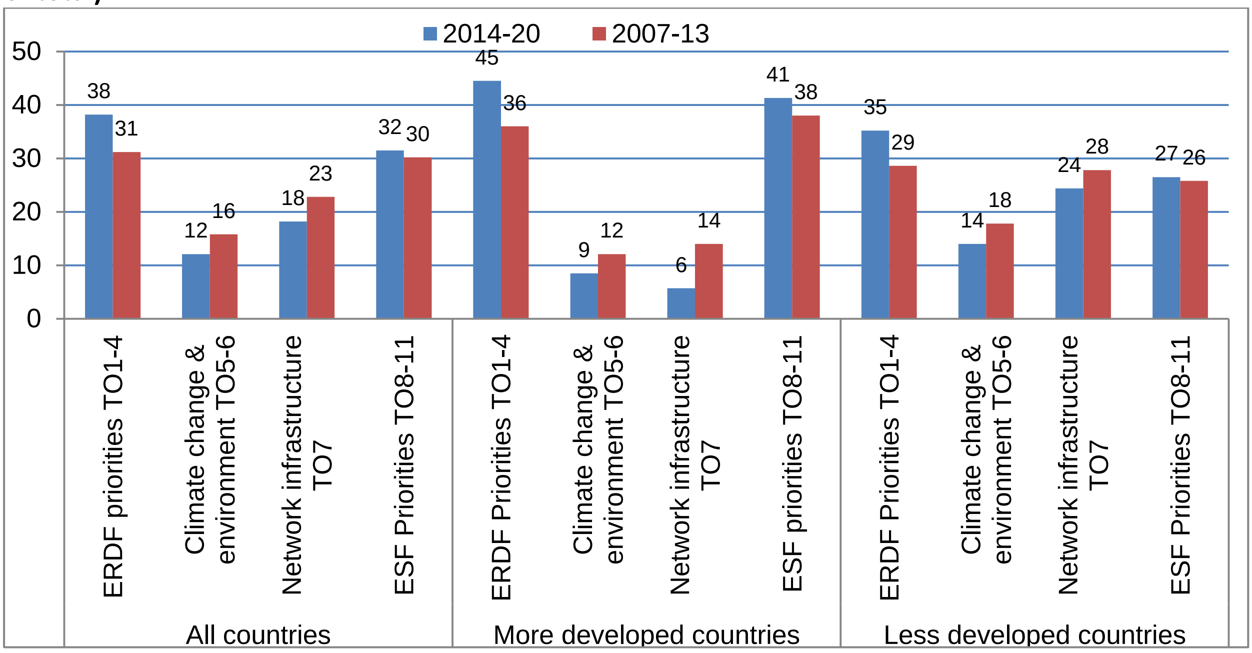
Although the overall Cohesion policy budget falls, in six countries there is an increase in funding, with Ireland gaining the most in relative terms with a 16 percent increase on current allocations. However, in absolute terms this is rather modest. Some Central and Eastern European countries gained significantly in absolute terms (notably Poland, Romania and Slovakia. At the other end of the spectrum, there are very significant reductions in expenditure both in absolute and relative terms in a number of countries. These include Spain and Germany which each lose in excess of €9 billion in Cohesion policy receipts, equivalent to well over a quarter of their current allocations. Notable among the Central and Eastern European countries, those that saw funding cuts were Czech Republic, Hungary and Slovenia.

The allocation is perverse on several counts. First, at a time of crisis, countries like Greece, Spain and Hungary suffered some of the biggest cuts in economic development support. Second, the effects of capping were significant. While in the 2007-13 period, the receipts of Central and Eastern European countries were capped on a sliding scale of up to 3.5 percent of national GDP, for the 2014-20 period the cap was reduced to 2.45-2.59 percent. Faster growth countries (like Slovakia, Bulgaria, Romania and Poland) still benefited from increases because of their higher GDP, but slower growing countries (Hungary, Estonia, Latvia, Lithuania) were penalised – a perverse effect of capping. Also, the aid intensity for Less-Developed Regions was cut, affecting countries not subject to capping (Slovenia). Lastly, the new Transition Region category effectively cut funding from the poorer countries and regions and gave additional funds to countries which were against extra EU spending and (in the case of the United Kingdom) have had a long-standing objection to richer Member States qualifying for Cohesion policy support.

Taking a longer term perspective on the allocation of EU funding, it is notable that the EU's commitment to cohesion is declining. In the 2014-20 period, the EU will be allocating less (as a proportion of EU GDP) to cohesion than it has done since the early 1990s. By 2020, the proportion of EU GDP committed to Cohesion policy will be c. 0.34 percent, almost a quarter less than the 0.45 percent committed in 1999. In each year of the 2014-20 period, the commitment appropriations will be lower than the equivalent year of the 2007-13 period. Further, it is notable that the proportion of funding allocated to the lagging regions is now at an historic low. In 1989-93, 73.2 percent of commitment appropriations under the Structural Funds were allocated to Objective 1 regions, a figure that fell to 59 percent for the Convergence regions in 2007-13 and most recently 53.5 percent for the Less-Developed Regions in 2014-20. Together these shifts from the mid-2000s onwards indicate that regional disadvantage – especially in the poorest regions, as in Central and Eastern Europe - is playing a diminishing role in the spatial coverage of Cohesion policy.

A comparison of thematic shifts in funding from 2007-13 to 2014-20 shows a significant increase in ERDF/CF allocations to Europe 2020 thematic objectives 1-4: R&D and innovation, ICT, SMEs and a low-carbon economy, which collectively will see an increase of 7 percentage points to 38 percent of total funding in 2014-20 (see Figure 6). Support for the ESF priorities Employment, social inclusion and education and training will see a marginal increase (of 2 percentage points to 32 percent of allocations). These increases are borne by reductions in infrastructure spending on environmental protection, transport and energy. The shifts are apparent in less developed Member States (including those from CEE) but are more pronounced in more developed Member States.

Figure 6: Allocations by thematic objective by groups of Member States, 2007-13 and 2014-20 (% of total)



Source: based on final and draft PAs as of 1 June 2014 assessed by EPRC, data from 6th Cohesion Report.

Turning to the post-2020 debate, this has not yet been formally launched. However, all the European institutions are beginning to think about their contributions to the reform discussions, and, as noted above, the EU Regional Policy Commissioner posed a series of questions at the conclusions of the Sixth Cohesion Forum relating to simplification, the risk-averse nature of spending decisions, and the indicators used for designating Less-Developed Regions. With respect to the major scenarios discussed in the previous section, each has implications for the Central and Eastern European countries.

- ***Focusing Cohesion policy mainly/only on poor countries or regions*** would provide possible short-term gains from funding flowing only to poorer parts of the EU, mainly in Central and Eastern Europe (though also parts of southern and western Europe hit badly by the crisis). However, fast-growing CEE regions could lose out (such as Mazowieckie, Budapest, Prague, etc). Also, the medium-term implications are likely to be negative, given the probability of less funding being committed by Member States overall to the EU budget, and potentially less interest in net payer countries on how the funding is spent. There would also be the possibility of Cohesion policy funds being diverted to other budget headings, which are not pre-allocated.

- ***Retaining Cohesion policy across all regions, including richer areas (i.e. a variant of the status quo)*** would ensure that all Member State remain part of the Cohesion policy system with an interest in, and commitment to, the policy. It would avoid Cohesion policy becoming seen as a 'welfare policy', and it would maintain a common framework for sharing experience and knowledge exchange on regional development, both of which are important for Central and Eastern European countries. The universality of spatial coverage would ensure that faster-growing CEE regions continue to benefit from the policy even though they no longer qualify for LDR funding. On the other hand, if Cohesion policy continues to account for a sizeable share of the EU budget, there would undoubtedly be pressure for a continued shift of spending away from redistributive and regional development goals to using the policy for the thematic investment objectives of the EU (as has happened with respect to the Lisbon Agenda in 2000-06 and 2007-13, and Europe 2020 in 2014-20) that may not suit CEE interests. In the MFF negotiations, Cohesion policy would continue to play the part of 'adjustment variable' with Member States using the allocation formula to improve their net balances. Lastly, the negotiation of the regulations would continue to have an element of the 'lowest common denominator' acceptable to all Member States, blocking in particular necessary changes such as greater differentiation and proportionality in the way that the regulations are designed.

- ***Allocating Cohesion policy funding allocated at national level to countries***, whether for all regions or only poorer regions, would represent a significant change for the policy. It would focus policy on convergence between Member States, assuming that national governments are best placed to undertake subnational distribution and achieve regional cohesion. It would provide scope for a stronger link with National Reform Programmes and the European Semester, but would change fundamentally the role of the Commission, which would potentially focus more on setting common objectives, coordination, strengthening national capacity for regional development, peer review and selective intervention, as with the former Community Initiatives. The implications for Central and Eastern European countries are that that Cohesion policy would become a more growth/investment focused policy, downgrading regional cohesion objectives – which might be welcomed by some national governments, but less by the regions which often have limited self-governance in many CEE countries. Such a policy approach would accelerate the thematisation of Cohesion policy or the transfer of Cohesion policy resources to other policy areas. Some would argue that it runs contrary to the Treaty commitments to economic, social and territorial cohesion, and the degree to which sub-national development problems were addressed would depend on the strength of CEE national regional development strategies.

The nature of Cohesion policy reform, requiring consensus among all Member States, embodies considerable inertia and resistance to radical change. The most likely outcome is a variant of the status quo. However, there are uncertain economic and political times ahead; recovery from the economic crisis is slow, halting and variable, especially in the Eurozone. The future of economic governance is being debated, and a comprehensive Genuine Economic and Monetary Union could involve creating a new stabilisation mechanism that influences the funding or priorities of Cohesion policy. The review of EU competences undertaken in the United Kingdom as a prelude to a possible referendum on EU membership has sympathies in several other Member States and could affect how Cohesion policy is undertaken. The shared management model of the policy may also come into question. Lastly, a critical factor is how well Cohesion policy performs in the 2014-20 – most notably in the Central and Eastern European countries which account for over half the funding – and whether it is capable of delivering the goals and expectations (especially Europe 2020 goals) that have been set to justify such a large share of the EU budget.

Conclusions

The significance of Cohesion policy for regional development is evident in CEECs and argues for a continued role for investment in these countries. However, this has to be accompanied by investment in strategic and administrative capacity. 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. Moreover, the focus has been on areas where public authorities had implementation experience, where funding can be absorbed quickly and where impacts are immediate and tangible, particularly in the field of basic infrastructure. In this, CEECs are following the path taken by Member States joining the EU under previous enlargements (particularly the so-called 'Cohesion countries'). This approach supports 'demand side' growth driven by stimulating higher investment, higher consumption and higher levels of imports. Such an approach has short-term benefits and has been valuable in some cases as an additional stimulus in the context of the global financial crisis. However, its impact is transitory, lasting only as long as there are significant amounts of Cohesion policy available. 'Supply-side' impacts arise through the gradual build-up of "stocks" of infrastructure, human capital and R&D, and beneficial output and productivity spillovers. Moves to more sophisticated interventions, particularly RTDI, and entrepreneurship are underway, with emphasis placed on these themes in the Lisbon and Europe 2020 agendas. However, authorities have struggled to implement actions in these fields. 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. 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 poses fundamental questions for the spatial and thematic orientation of future Cohesion policy investment in CEECs. Who is Cohesion policy for, where should it be invested, what should it be invested in and how should it be implemented? On the one hand, if European Structural and Investment Funds are more effective where existing institutional conditions are strong, there is an argument for concentrating funding on those more developed locations. However, this move would raise the broader issue of the function of Cohesion policy and have important implications for Central and East European Member States. Clearly there would be potential short-term gains from funding flowing only to poorer countries and regions as these would be mainly located in Central and Eastern Europe. However, the fastest-growing areas in these countries could lose out. This could relate to Mazowieckie, Budapest, Prague, etc., which are areas currently being targeted by development policy as vital drivers of national economies and convergence at EU level. This move would mark a downgrading of Cohesion policy within the EU budget and possibly less interest in EU15 Member States in how the funding is spent. The likelihood is that Cohesion policy funds would be diverted to other budget headings which are not pre-allocated to specific areas.

On the other hand, the case for retaining Cohesion policy across all regions, including in richer areas, has been made in several other contributions to the debate on geographical targeting. The European Commission and European Parliament have always argued for a pan-EU Cohesion policy to support all Member States, with a higher concentration of funding in the less-developed EU regions. There are positive implications for Central and East European countries of retaining EU-wide coverage for Cohesion policy. First, this would confirm the status of Cohesion policy generally and ensure that all Member States are part of it. Thus ensuring continued interest in and commitment to the policy. Second, it would avoid Cohesion policy being seen as a kind of 'welfare policy' aiming mainly to compensate less prosperous countries and with fewer resources available. The universality of spatial coverage would ensure that faster-growing CEE regions continue to benefit from the policy even though they no longer qualify for less developed region funding. Finally, it would also maintain a common framework for sharing experience and knowledge exchange on regional development across the EU which is important for Central and Eastern European countries.

However, there are still some issues and challenges with this scenario for countries in Central and Eastern Europe. If Cohesion policy continues to account for a sizeable share of the EU budget, there would undoubtedly be pressure for a continued shift of spending away from redistributive and regional development goals to using the policy for the thematic investment objectives of the EU (as has happened with respect to the Lisbon Agenda in 2000-06 and 2007-13, and Europe 2020 in 2014-20). This stresses the trade-off between external convergence with the EU (implying support of national drivers of economic growth) and a pro-equity emphasis be placed on internal convergence amongst regions. This in turn raises questions of social and territorial cohesion as spatial disparities are on the rise in many CEECs (particularly between major urban centres and rural hinterlands). Compromises are possible but this requires strategic quality and implementation capacity. Cohesion policy can simultaneously contribute to enhancing the competitiveness of regions and hence create growth in the short-medium term, but can also be used to strengthen institutional factors (including economic, political, entrepreneurial procedures and norms as well as public policy administration). This enriched endowment will eventually enhance the long run growth of the poorest regions. Fundamental to this is the quality of development strategies: crucial to shaping institutions for local and regional development is a sharper understanding of what they can and can't do as well as moulding their features to work effectively within particular regional and local contexts.

Similarly, attention must be paid to the capacity to implement development programmes. A defining feature of EU Cohesion policy is its multi-level governance model of implementation. This is codified in the partnership principle in the Regulations, not only relating to the distribution of management tasks between the EU and Member States, but also wider participation among private and societal stakeholders at all governance levels. As demonstrated by the research, the partnership principle is often identified as one of the main areas of EU added value in Cohesion policy in Central and Eastern Europe and is credited with having a significant impact on regional policy practice in the Member States. However, the implementation of the partnership principle is uneven, and our study highlighted substantial challenges to effective implementation of the principle. These include: limited experience of partnership-working; lack of resources to effectively participate in programme decision-making and administrative tensions between different tiers of government. Moreover, the higher the number of actors involved, the greater the complexity of management and potential for politicisation of decision-making and deadlock. Beyond these governance effects and tensions, the contribution of Cohesion policy's multi-level governance model to regional development is uncertain. Various OECD reports and the Barca Report have argued that multi-level governance is the most effective approach for regional and national development policies because its allows for top-level priorities to be tailored to local needs and potentials. However, there is a lack of robust, credible and quantified evidence of the impact of multi-level governance on economic outcomes. In terms of administrative costs, studies of comparable policy fields have found that the Cohesion policy governance system has roughly similar or lower general administrative expenses. Nevertheless, the (in)efficiency of the multi-level governance model is one the most frequent criticisms by national policy-makers and stakeholders. This particularly applies to financial management and control requirements. In several richer countries, beneficiaries are avoiding applying for Structural Funds if alternative funding sources are available. Thus, although shared management is a fundamental Cohesion policy principle there is some discussion about whether a more devolved approach – that provides more scope for nationally determined policy frameworks and domestic administrative systems – could be used to achieve EU objectives. A move towards greater devolution would have implications for CEECs. On the one hand, as our case study research demonstrated, the administrative expenses involved in Cohesion policy management and implementation are felt in these countries, particularly where administrative capacity is still being built. Notably, the focus on control and micro-management has an impact on Managing Authority's ability to take risks and to support innovative or complex projects with scope to achieve greater results. This encourages programme managers to select operations in line with the status quo to respond to absorption pressures or to ensure certainty of achieving results. On the other hand, problems with excessive administrative cost compared to levels of related EU funding are most prominent in EU15 Member States where Cohesion policy investment is relatively low. The influence of Cohesion policy on the development of administrative capacity at national and sub-national levels in CEECs is generally valued. A more devolved approach would limit this influence and potentially place extra strain on these systems.

List of papers

8.01 // Martin Ferry:

The Achievements of Cohesion Policy: Evidence and Methodological Challenges from an EU10 Perspective',

8.02.01 // Stefan Kah:

Cohesion Policy Lessons From Earlier EU/EC Enlargements. Austria Case Study Report

8.02.02 // Kaisa Granqvist:

Cohesion Policy Lessons From Earlier EU/EC Enlargements. Finland Case Study Report

8.02.03 // Martin Ferry:

Cohesion Policy Lessons From Earlier EU/EC Enlargements. Spain Case Study Report

8.02.04 // Kaisa Granqvist:

Cohesion Policy Lessons From Earlier EU/EC Enlargements. Sweden Case Study Report

8.02.05 // Stephen Miller:

Cohesion Policy Lessons From Earlier EU/EC Enlargements. Ireland Case Study Report

8.02 // Martin Ferry:

Cohesion Policy Lessons From Earlier EU/EC Enlargements. Synthesis of Case Studies

8.03.01 // Kaisa Granqvist:

Kirde-Eesti Case Study Report

8.03.02 // James Scott, Boglárka Szallai:

Central Hungarian Region and Budapest Agglomeration Case Study Report

8.03.03 // Marek W. Kozak:

Podkarpackie Region Case Study Report

8.03.04 // Daniela Constantin, Zizi Goschin, Constanta Bodea, Ion Stancu, Bogdan Ileanu:

Suceava County, North-East Region (Romania) Case Study Report

8.03.05 // Martin Ferry:

Śląskie Case Study Report

8.03.06 // Stefan Kah:

Slovakia case study report

8.03 // Martin Ferry:

Cohesion Policy and its Components: Past, Present and Future. Synthesis Report

8.04 // Roberta Capello, Camilla Lenzi:

Relevance and Utility of RTDI Funds for Smart Growth

8.05 // Ugo Fratesi, Giovanni Perucca:

Territorial Capital and the Effectiveness of Cohesion Policies: an Assessment for CEE Regions

8.06 // Martin Ferry:

Cohesion Policy Transfer and Institutional Change in Central and Eastern Europe

8.07 // Sándor Richter:

General rationale for an EU budget and the cohesion policy as a segment of it

8.08 // John Bachtler, Carlos Mendez, Fiona Wishlade:

Cohesion policy reform and Central and Eastern Europe