

EU COHESION POLICY

REASSESSING PERFORMANCE AND DIRECTION



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REGIONS AND CITIES

EDITED BY JOHN BACHTLER, PETER BERKOWITZ,
SALLY HARDY AND TATJANA MURAVSKA

EU Cohesion Policy

This book brings together academics, members of European institutions, and regional and national level policymakers in order to assess the performance and direction of EU Cohesion policy against the background of the most significant reforms to the policy in a generation. Responding to past criticisms of the effectiveness of the policy, the policy changes introduced in 2013 have aligned European Structural and Investment Funds with the Europe 2020 strategy and introduced measures to improve strategic coherence, performance and integrated development.

EU Cohesion Policy: Reassessing performance and direction argues that policy can only be successfully developed and implemented if there is input from both academics and practitioners. The chapters in the book address four important issues: the effectiveness and impact of Cohesion policy at European, national and regional levels; the contribution of Cohesion policy to the Europe 2020 strategy of smart, sustainable and inclusive growth; the importance of quality of government and administrative capacity for the effective management of the Funds; and the inter-relationships between institutions, territory and place-based policies.

The volume will be an invaluable resource to students, academics and policy-makers across economics, regional studies, European studies and international relations.

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Reassessing performance and direction

**Edited by John Bachtler,
Peter Berkowitz, Sally Hardy
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Introduction

Reassessing the performance and direction of EU Cohesion Policy in 2014–20

*John Bachtler, Peter Berkowitz,¹ Sally Hardy
and Tatjana Muravska*

In 2013, the Cohesion Policy of the European Union (EU) underwent the most significant and substantial set of regulatory changes since the landmark reform of Structural Funds in 1988. The changes were important in establishing a new policy direction for EU Cohesion Policy, one which aligned the objectives of European Structural and Investment Funds (ESIF) to the overall priorities of the EU, as expressed in the Europe 2020 strategy for smart, sustainable and inclusive growth. The new regulations also introduced requirements for more strategic coherence in the planning and implementation of ESIF programmes, as well as greater thematic concentration through targeting of resources – with a particular focus on research and innovation, SME competitiveness, ICT, the low carbon economy, employment and social inclusion. A new performance framework, ex ante conditionalities, and an emphasis on results in the formulation of objectives in programmes sought to reinforce the effectiveness of planned spending. Place-based policymaking was strengthened through the introduction of new integrated territorial delivery mechanisms for ESIF programmes, a strong commitment to the development of smart specialisation strategies and the regulatory obligation to spend a minimum level of funding on sustainable development interventions in urban areas. Lastly, institutional and administrative capacity was recognised as an important precondition for efficient management of the Funds, both before and during implementation. Finally, the policy has been brought into line with the evolving framework of economic governance within the EU.

These changes were driven by evidence and responded to some important criticisms of Cohesion Policy. During the preparatory phase for the 2013 reform, the European Commission sponsored a wide-ranging reassessment of the policy (Barca, 2009), complemented by extensive consultation with Member State policymakers, and the largest-scale programme of evaluation of the policy in its history (Applica *et al.*, 2009). The results showed, *inter alia*, that the effectiveness of the policy was undermined by the fragmentation of spending across too many priorities with a lack of critical mass, and insufficient consideration of the ‘logic of intervention’, especially as regards the anticipated outcomes of policy choices in the setting of objectives and allocation of resources. Deficiencies in policy frameworks and institutional capacity at national and regional levels were limiting (or even countering) the potential impact of EU funding. The implementation of

policy was also characterised by insufficient exploitation of synergies as a result of a lack of coordination across policy fields and organisational boundaries. In many cases, these problems were not new and (in some regions) had constrained effective programme implementation since the early 1990s (Bachtler *et al.*, 2016).

Translating the ambitious objectives of the 2013 reforms into practice has not been easy. There is clearly a significant shift in ESIF allocations in 2014–20, with alignment of funding with Europe 2020 priorities, a greater use of financial instruments and (potentially) more transparent and measurable results associated with performance frameworks. The introduction of ex ante conditionalities has led to a major investment in addressing institutional, legislative and strategic weakness which could undermine the effectiveness of investment. At the same time, the context for the policy is changing, with the crisis undermining the longer-term gains made in national and regional convergence in some Member States and regions. In addition to the problems of low economic growth and high rates of unemployment (especially among young people), new challenges related to migration have emerged (European Commission, 2015).

Challenges for the Cohesion Policy in 2014–20: an academic and policy debate

It is against this background that the Regional Studies Association and the European Commission's Directorate-General for Regional and Urban Policy (DG Regio) organised the conference 'Challenges for the new Cohesion Policy in 2014–20' in February 2015 in Riga, to facilitate an academic and policy debate between the academic community, European institutions and policymakers from national and regional levels in Member States. Hosted by the Latvian Government and University of Latvia, the aims of the Conference were to make policy officials and practitioners aware of research being conducted on Cohesion Policy, and to give academics a better understanding of the concerns and priorities of the policy communities at EU and national levels.

The conference brought together 183 participants from academia and policy for three days of discussions. Some 83 papers were presented in 25 workshops covering a wide range of themes on the design, implementation and performance of Cohesion Policy – past, present and future. They addressed five main sets of questions:²

- Economic geography and Cohesion Policy: how are the economic and social challenges for European Structural and Investment Funds changing?
- Institutions and governance: what can Cohesion Policy do to strengthen public administration and effective management of the Funds?
- Performance and results: how can Cohesion Policy resources be used most effectively and efficiently?
- Instruments: what kind of Cohesion Policy interventions make a difference?
- EU economic governance and Cohesion Policy: what are the implications of governance reforms for Cohesion Policy?

Selecting papers from the rich material presented and discussed at the Conference has not been an easy task. The 20 chapters in this volume are intended to provide a representative selection, covering 4 themes: research on the effectiveness and impact of Cohesion Policy; the contribution of Cohesion Policy to smart, sustainable and inclusive growth; the importance of the administration and delivery of Cohesion Policy; and the inter-relationships between institutions, territory and place-based policies.

The impact of Cohesion Policy

The appropriate mix and spatial focus of Cohesion Policy interventions to maximise its impact is a perennial challenge for policymakers and analysts. Chapter 1 begins with a long-term perspective on the effectiveness of Cohesion Policy by *John Bachtler, Iain Begg, David Charles and Laura Polverari*. Based on research in 15 regions of the EU15 over the period from 1989 to 2012, and using theory-based evaluation, it is the first longitudinal and comparative analysis of the relevance, effectiveness and utility of the Funds from 1989 to 2012 covering almost four full programme periods. The research concludes that spending through Cohesion Policy has suffered from a lack of conceptual thinking or strategic justification for programmes, objectives that were neither specific nor measurable, and deficiencies across most areas of management to varying degrees. However, there is evidence of improvement over time and the increasing adoption of what is regarded as ‘good practice’. The research provides support for key principles of the 2013 reforms of Cohesion Policy, notably with regard to greater concentration of resources, strategic coherence, integrated investment, and (most of all) the role of administrative and institutional capacity as a precondition for effective implementation.

Investigating whether territorial ‘conditioning factors’ play a role is the subject of Chapter 2. *Maria Giua and Riccardo Crescenzi* critically analyse the existing scholarly and policy literature on the factors conditioning EU Cohesion Policy and its impacts. Their analysis identifies key gaps in the existing evidence and develops an agenda for future research in this field, informing an evidence-based debate on the future of the policy. The Chapter calls for stronger synergies between the analysis of the territorial factors conditioning the policy impacts and counterfactual methods in order to shed new light on what works (and what does not) in the large variety of territorial contexts of the EU.

Most of the authors at the Riga conference agreed on the need for infrastructure development to be accompanied by support for business development and innovation in a coordinated strategic approach. This issue was central to research conducted by *Grzegorz Gorzelak* (Chapter 3) who discusses the territorial impact of Cohesion Policy in Poland during the 2007–13 period. Statistical evidence at NUTS2, NUTS3 and NUTS4 levels demonstrates the growing variation in levels of development among territorial units. A survey of 1,300 municipalities also proves that the EU Funds have had more impact socially, improving living standards and the state of the environment, than on local growth conditions.

The Chapter concludes with policy suggestions for the 2014–20 programming period.

A broader international analysis is undertaken by *Nicola Pontarollo* in Chapter 5, examining the effects of Structural Funds in Objective 1 regions in 2000–06 with a semi-parametric approach that accounts for possible non-linearities. The main findings are that funds for productive environment are positively correlated to GDP growth per capita mainly in lagging regions, while they do not have an effect on productivity. Funds for human capital, despite the low budgets, are strongly positive for both GDP per capita and GVA per worker growth in majority of regions, while Funds for infrastructure are effective in improving productivity growth only above the threshold of one per cent of regional GVA.

Turning to methodological issues, *Jerzy Pieńkowski* and *Peter Berkowitz* (Chapter 4) undertake a wide-ranging review of the relevance of econometric studies addressing the impact of Cohesion Policy funding on economic growth from the policymakers' perspective. The econometric methods used for this purpose have been enriched recently, for instance by using spatial techniques and non-parametric methods. However, some weaknesses remain: not many studies use good-quality data on Cohesion Policy transfers; the parameters of spatial dependence are very simple; and some important policy variables are excluded from the regressions. The conclusions for Cohesion Policy drawn by these studies are not well developed and contradictory, and the Chapter concludes with some suggestions for future research.

The contribution of Cohesion Policy to smart, sustainable and inclusive growth

As noted above, a major change in the policy context for Cohesion Policy is the Union strategy for smart, sustainable and inclusive growth (Europe 2020). For the 2014–20 period, Cohesion Policy has been cast as the budgetary arm of Europe 2020, with the earmarking of resources for investments in key thematic objectives (RTDI, ICT, SME competitiveness, low carbon, social inclusion). An important new conditionality related to Europe 2020 is the requirement for countries and regions to put in place smart specialisation strategies (S3) as a framework for targeted support to research and innovation. In Chapter 8, *Henning Kroll* reflects on the implementation of the RIS3 policy agenda. Based on two Europe-wide online surveys, he underlines that the diverse pattern of institutional arrangements among EU regions poses locally specific policy challenges in which governance capacities are at least as important as actual potentials. Specifically, the study finds that Southern European regions tend to profit from the RIS3 agenda while Eastern European regions face difficulties due to their different institutional arrangements. Nevertheless, one merit of RIS3 processes may lie in their impact on exactly those arrangements.

Notwithstanding the importance of innovation, targeted infrastructure development remains important in certain contexts. In Chapter 6, *Piotr Rosik*, *Marcin Stępnia*k and *Tomasz Komornicki* show that investment in high-quality transport

infrastructure can lead to greater territorial cohesion at different spatial levels. However, they note that in Poland more emphasis has been placed on improving international connectivity compared to national accessibility. In the context of the country's internal cohesion, the increase of Potential Accessibility Dispersion index values and an increased variation in the accessibility of the country's regions have been observed since 2004. Conclusions drawn from experience are important for the most efficient implementation of EU Funds in the 2014–20 programming period.

With respect to other effects, the demographic impact of EU funding is analysed by *Alexander Dahs* in Chapter 7. He examines the regional demographic implications of the Cohesion Policy interventions in Latvia under the 2007–13 Operational Programme and evaluates the significance of these effects in comparison with other forms of regional socio-economic aid and financial investment. The research finds that Cohesion Policy investments had some impact on local demographic change, although the positive effect has been lower than expected by the authorities. The effects of various forms of regional aid may be either localised or spatially distributed, implying opportunities for better planning of future investment.

Youth employment has risen sharply up the EU's political agenda since 2011 in response to substantial rises in youth unemployment rates in a number of Member States as a result of the economic crisis and on-going recession. In Chapter 11, *Jale Tosun, Carsten Jensen, Stefan Speckesser and Jacqueline O'Reilly* address the role of Structural Funds in general, and the ESF and ERDF in particular, in helping to overcome youth unemployment. Empirically, they examine the annual absorption behaviour of the EU Member States between 2000 and 2011, finding that the absorption capacity of Member States had a significant effect on youth unemployment.

The need for a strategic and coordinated approach to youth unemployment programmes is emphasised by *Elizabeth Sanderson, Peter Wells and Ian Wilson* (Chapter 9). Their research looks beyond the now well-established repertoire of ESIF interventions set out in the European Commission's call for action on youth unemployment as well as other guidance. Two possible areas for intervention are considered: the involvement of young people in the design and delivery of programmes and the development of young people's personal resilience as a determinant of successful labour market outcomes. Findings draw on the evaluation of a UK youth employment programme, the Big Lottery Fund's Talent Match.

Importantly, there continue to be differences in equal opportunities for women and ethnic minorities. *Leaza McSorley and Jim Campbell* (Chapter 10) argue that EU commitments for gender equality were not given sufficient prominence in the regulatory framework for 2014–20 or followed through in the thematic objectives and investment priorities. Based on an evaluation of ESIF commitments to gender mainstreaming in the Scottish Structural Funds Programme 2007–13, they argue that the ESIF have an important role to play in contributing to Europe 2020 targets by tackling the significant variations in female employment rates and delivering greater gender equality within the EU. However, in order to do so, policymakers

need to be aware that interventions funded under ESIF are not gender neutral and gender mainstreaming must be implemented more effectively in all Funds, not solely the ESF, in the 2014–20 period.

The administration and delivery of Cohesion Policy

Several of the reforms introduced in the 2013 regulatory framework are intended to strengthen public administration and the effective management of the Funds. Adequate administrative capacity at national, regional and local levels is considered a prerequisite. Research presented at the Riga Conference identified administrative capacity as a key bottleneck that has to be addressed before sustainable high growth levels will materialise. Poor governance reduces economic growth and entrepreneurship and diminishes the impact of Cohesion Policy.

Nicolai-Cristian Surubaru (Chapter 12) argues that the institutional environment in which domestic national managing institutions are embedded plays an equally important role in the development of administrative capacity and can contribute towards developing new ways for improving the effectiveness of Cohesion Policy, particularly in light of its 2013 reform. Political stability is regarded as a key condition for effective Funds' management as well as avoidance of political clientelism.

An important question is whether EU funding can improve the quality of government. Chapter 13 by *István János Tóth and Mihály Fazekas* offers novel evidence on this question by utilising a large-scale public procurement database, the EU's Tenders Electronic Daily, containing the details of more than 2.8 million contracts from the 2009–14 period. It matches and compares EU-funded public procurement contracts with those that were nationally funded in order to obtain an approximation of the causal impact of EU funding on corruption. Results suggest that on average EU Funds increase corruption risks across Europe by 3–20 per cent depending on the corruption risk indicator used. This effect shows a remarkable variability across regions, underlining the importance of recipient institutional framework.

More fundamentally, *Andrey Demidov* questioned whether the application of concepts such as 'weak bureaucracies' or 'low capacities' in Central and Eastern European countries is obscuring a deeper understanding of the complexity of the motivations and actions of Cohesion Policy implementers. Taking the Partnership Principle for the Structural Funds as a case study, Chapter 14 summarises the findings of an interpretive analysis of how national state officials across four CEE member states – Hungary, Slovakia, Poland and Slovenia – implement Cohesion Policy rules and requirements. The analysis demonstrates the complex nature of actors' understandings of partnership, shaped not only by the actors' own interests but also by institutional identities and larger dynamics of relations with the EU institutions, domestic civil society actors and each other.

In Chapter 15, *Gergő Medve-Bálint* employs multi-level linear and Tobit models to test the effects of both regional and local economic and political factors on the territorial distribution of EU Funds in Poland and Hungary in the

2007–13 programming period. The findings suggest that, all else being equal, in both countries some of the wealthiest regions and especially the wealthier localities have benefited more from the Funds than the less wealthy ones. Furthermore, the Chapter reveals that a political bias has also characterised the funding process, in that the political preferences of central governments seem to have influenced the distribution of the Funds. Based on research in Romania, *Septimiu-Rares Szabo* (Chapter 16) assessed the impact of the sub-national level in implementing Cohesion Policy in 2007–13, while also looking into the implications of these findings for the 2014–20 period. The study emphasised the importance of strengthening the capacity of middle management within government institutions, and including implementing bodies and beneficiaries in administrative capacity-building efforts, especially for decentralised management of ESIF.

Institutions, territory and place-based policies

In focusing on longer-term development challenges and strategies, with a stronger focus on EU-level objectives, there is the question of how to give meaning to place-based policymaking. The research by *Ugo Fratesi* and *Giovanni Perucca* (Chapter 17) shows the need for Cohesion Policy strategies to be place-sensitive with different mixes of interventions appropriate for different types of region. The Chapter undertakes a multidimensional analysis of the relationship between territorial capital and Cohesion Policy using NUTS3-level statistical data for the 2000–06 period. It finds that regions less endowed with territorial capital tend to concentrate Structural Funds' expenditure on basic infrastructure provision, intermediate regions on various types of business support and better endowed regions on the provision of human capital and other soft territorial capital assets.

Several of the reforms introduced in 2013 are intended to strengthen public administration and the effective management of the Funds. *Liga Baltina* and *Tatjana Muravska* (Chapter 18) highlight the effectiveness of the institutional framework as a key element in achieving Cohesion Policy goals. They show that good administrative capacity at national, regional and local levels is an important prerequisite for the use of the place-based approach for regional development planning, as it is linked with the capacity to develop an up-to-date business environment and to provide citizens with the necessary services.

A broader issue for *Iván Tócsics* (Chapter 19) is one of unfulfilled expectations. He argues that the potential of these tools to promote integrated urban development is not being sufficiently exploited, with a regulatory framework which is insufficiently prescriptive in challenging national and regional authorities that are unwilling to devolve budgets and responsibilities, as well as capacity constraints at local level.

However, a place-based approach is challenging. *Jacek Zaucha* and *Tomasz Komornicki* (Chapter 20) discuss how the exploitation of territorial capital has been translated into programming documents in the Polish regions, finding that there has been little practical implementation on the ground. Although Poland

is regarded as a leader in terms of legal arrangements in support of a territorial integrated approach, it is lagging behind other countries in the behavioural domain.

The focus of the Riga Conference was mainly on the challenges and opportunities for implementing Cohesion Policy in the 2014–20 period at a point in time when a new generation of Structural Funds programmes was only just being launched. As the programme period develops, new evidence on how the 2013 reforms are playing out in practice will become available, combined with further research and evaluation of the impact of Cohesion Policy in 2007–13. This will allow further reassessment of the issues discussed in this book as well as a contribution to longer-term thinking on the future of the policy after 2020.

Notes

- 1 The information and views set out in the chapter are those of the author and do not reflect the official opinion of the European Commission.
- 2 A list and summary of the Conference papers are available here: http://ec.europa.eu/regional_policy/sources/conferences/challenges-cp-2014/conference_report.pdf. The papers themselves are available on the Conference website at: http://ec.europa.eu/regional_policy/index.cfm/en/conferences/challenges-cp-2014/.

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Part I

The impact of Cohesion Policy



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