TITLE OF THE PROJECT

Growth Innovation Competitiveness: Fostering Cohesion in Central and Eastern Europe

Future Cohesion policy suggestions

30.04.2015

INTRODUCTION

Several changes in application of Cohesion policy in the CEECs – by far the biggest beneficiaries of this policy in the EU – should be introduced in order to increase its pro-development meaning in these countries and securing a stable and smooth development in the future.

EVIDENCE AND ANALYSIS

First, EU funding needs to put into perspective. Cohesion policy brings direct and easily measurable funds which translate into spending and incomes, and results in visible material effects. Not surprisingly it is widely considered to be the main, if not the only, benefit of EU membership. In public and political discourse, benefits such as the political stability and openness, accessibility to the largest market in the world, increased inflow of FDI and new technologies, openness of labour markets across the entire EU, exchange of students and researchers etc. are often, if not usually, missing from public consciousness. **A major effort is required by both the academic and policy communities to put the role of the Cohesion policy in its right – important but not unique - place among all positive (and sometimes negative) impulses that come from the membership of the CEECs in the European Union.** The alternative is that EU membership is associated exclusively with funding and that, when the budgetary transfers diminish, so does support for the EU (as has occurred in some EU15 countries).

Second, the 2014-20 period may be the last phase of major transfers to the CEECs under Cohesion policy. It is critical for the CEECs – and for the policy – that the funding is exploited effectively for sustainable growth and cohesion. The experience of some EU15 countries is that the 'added value' of Structural and Cohesion Funds was highest in the second or third period of funding, once stakeholders were experienced in the management and implementation of the policy and – at the same time – were prepared to use the Funds to promote innovation and change in economic development. For the CEECs, the main requirements is to shift away from the focus on absorption (important though this is to meet the decommitment rule) and concentrate on investing funds in economically and socially viable projects which have been developed through sound project planning and meet the strategic objectives of the programmes and needs of the regions. **Genuine own strategic reflection should be strongly encouraged at all levels of governance - national, regional and local - which would create a basis for adapting the EU programmes and projects to the real needs of the recipient subjects.**

Third, the EU has agreed ambitious goals for Cohesion policy in the 2014-20 especially in the area of performance and the contribution of the policy to the objectives of the Europe 2020 strategy. Indeed, the volume of funding allocated to the policy in this period is predicated on the policy's ability to deliver. As the current programming phase demonstrates, the European Commission is demanding that objectives are specified with reference to results, that realistic targets are set, that ex ante conditionalities are in place and that the performance of the programmes is properly monitored. The first review of performance by the Council and Parliament will be in 2017, with a particular focus on Poland and other Member States receiving major shares of funding. **This reinforces the need for managing authorities and implementing bodies to allocate funding in line with strategic priorities and to demonstrate the results being achieved.**

POLICY IMPLICATIONS AND RECOMMENDATIONS

Looking beyond 2020, the European institutions have already begun to reflect on possible changes. Although an active debate has not yet begun in earnest, the Commission will need to present proposals for reform by 2018. For the CEECs, post-2020 funding will almost certainly be smaller and there is a need to consider the following issues.

- **Domestic regional development strategies**. CEECs should actively take forward the recent work undertaken to develop national development strategies, in particular the desirable strategic goals of social and economic development and the strategies, means and sources of domestic funding for realising these goals. There is a need to prepare a shift in psychological attitude – away from the assumption that the effort of developing the public sphere is externally financed, and towards a readiness to apply own financing - which should be promoted already during the current financial perspective.

- **Development models.** Part of the strategic assessment – and one of the messages of this study is the need to formulate a new development model. More stress should be put on the creation of innovative economic structures and entities at the expense of funding infrastructure, also in the R&D sphere. Infrastructure should be created only where and when its underdevelopment is a barrier for economic efficiency and social cohesion, and not where and when it satisfies the ambitions of the national, regional and local elites.

- **Differentiation.** One of the major questions for the reform debate is whether the current multi-level governance approach remains appropriate. Differentiation in the regulatory framework has so far been limited and relies on the Commission services and Member States being willing to adapt the regulatory requirements to the needs of individual countries/regions through negotiation. The question is whether a different model of managing the allocation of resources from the EU is required, with alternative division of responsibilities and greater scope for differentiation between Member States depending on their development needs, challenges and strategies and the state of administrative capacity. These are particularly pertinent questions for the CEECs which have tended to resist a differentiated approach in the past.

- **External learning**. The lessons from other research is that openness to ideas, knowledge exchange and a willingness to adapt are key factors in promoting effective regional development strategies. Consequently, more engagement in interregional cooperation should be encouraged in the spheres co-financed by Cohesion policy, especially in areas such as R&D and innovation creation and dissemination where networking is critical. For example, the regional innovation strategies that follow the RIS3 pattern should be mutually co-ordinated - at least among the regions of a given country - in order to avoid replication of simple patterns of profiling regional R&D structures (as is already being done, in part, by DG Regio through initiatives such as the Smart Specialisation Platform).

• **More and better evaluation, and its use.** Lastly, evaluation should become more strategic and substantial and less formal. In several countries, Cohesion policy has introduced evaluation as a part of the entire system of public policies - one of the most positive impacts of CEEC membership of the EU – not least because of the activities of the European Commission. However, evaluation often becomes an activity which does not translate into action directed towards improvement of future actions. Moreover, the fragmentation of Cohesion policy into several Directorates General within the European Commission (and its separation form another important policy of the EU: the Common Agricultural Policy) translates into fragmented evaluation studies conducted in the Member states. An integration of evaluation studies is an important need, as part of wider evaluation strategies, and its implementation would allow for more comprehensive assessment of EU interventions. It should allow for assessment of the combined/cumulative impact of particular EU polices (Cohesion, Agriculture, Innovation etc.) on territories of the CEECs and their regions and localities.

Cohesion Policy's prospects: a scenario approach

Beyond the specific policy or governance issues, the future of Cohesion policy will be determined significantly by the 'grand bargains' struck between the Member States and European institutions on the Multiannual Financial Framework, and the allocation of resources to policy budget headings and countries. With respect to the major scenarios for Cohesion policy that could be anticipated based on previous reform negotiations, 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 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 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.

RESEARCH PARAMETERS

The main objectives of the GRINCOH project is to deal with two major challenges facing the CEECs that are central to the goals of cohesion: they need to embark on a more innovation-driven process of development to secure long-term competitive and sustainable growth; and, at the same time, they need to create conditions for their citizens that allow them to enjoy more equal opportunities and to mobilise their full potential for economic and social development. The specific objectives of the project are: (a) to establish development scenarios for the CEECs for the period up to 2020 under different assumptions of political frameworks, institutional conditions and development strategies; (b) to identify the implications for sustainable growth – based on innovation and the development of technological capabilities – and greater economic, social and territorial cohesion in the CEECs; and (c) to advise on future policy options for the CEECs, and in particular for EU Cohesion policy.

PROJECT IDENTITY

PROJECT NAME	Growth Innovation Competitiveness: Fostering Cohesion in Central and Eastern Europe (GRINCOH)
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CONSORTIUM	Bucharest Academy of Economic Studies, Bucharest, Romania Halle Institute for Economic Research, Halle, Germany Hungarian Academy of Sciences, Research Centre for Economic and Regional Studies, Budapest, Hungary Institute for Economic Research, Ljubljana, Slovenia Institute of Baltic Studies, Tallinn, Estonia Politecnico di Milano,Building Environment, Science and Technology, Milan, Italy University College London, School of Slavonic and East European Studies, London, UK

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FUNDING SCHEME	FP7 Framework Programme for Research of the European Union – Collaborative project SSH.2011.2.2-1. Addressing cohesion challenges in Central and Eastern Europe
DURATION	March 2012 – February 2015 (36 months).
BUDGET	EU contribution: 2 697 875 €.
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FURTHER READING	G.Gorzelak, M.Ferry: *Future Cohesion Policy Suggestions*