



Ex post evaluation of Cohesion policy programmes 2007-2013 financed by the ERDF and the Cohesion Fund

WP1: Coordination support and Synthesis report

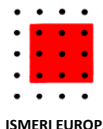
**Expert seminar on the use of Cohesion policy funding to
support growth and job creation in the EU**

30 January 2015

Synthesis



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Contents

Background..... 1

The focus of discussion..... 2

First set of question – The determinants of growth and job creation and the way the crisis has
changed understanding about these 3

Second set of questions - What should funding be invested in and how to have most effect on growth
and jobs? 6

Third set of questions - Which regions should funding be invested in to have the most effect on
growth and jobs?..... 8

Fourth set of questions - How important is the institutional and policy context to the success of
investment?..... 10

References..... 12

Seminar on the use of Cohesion policy funding to support growth and job creation in the EU

Background

The European Regional Development Fund (ERDF) and Cohesion Fund are the main EU sources of investment for assisting countries and regions to overcome obstacles to their development and for reducing disparities in economic performance across the Union. Together with the European Social Fund (ESF), they have come to be regarded, in addition, as the primary means available at EU level for supporting the pursuit of the Europe 2020 strategy of smart, sustainable and inclusive growth. As such, their central objective in the new programming period is seen to be to stimulate and sustain the growth and job creation needed for recovery from the crisis and to bring down unemployment.

This raises the key question of how the funds should be invested to have most effect on growth and employment, a question which has acquired added importance given the continuing constraints on public finances and the limited size of the funding available. (The average amount per head of the three Funds taken together is 16% smaller in constant price terms in the 2014-2020 period than in the previous one.) According to the European Commission, as regards the ERDF, Member States should prioritise investment in R&D and innovation, ICT, SMEs and the reduction in use of carbon fuels (regarded as priorities for the ERDF), while they should use the ESF to invest in education and in measures to support employment and reduce social exclusion. They are equally encouraged to invest in improving governance and in better managing the allocation of funding and the implementation of investment programmes so as to give more chance of the funds being used effectively.

How far the views of the Commission on the use of the funds reflect the general consensus on how they can best be invested to achieve what is expected from them is, however, uncertain. As part of the *ex-post* evaluation of the ERDF and the Cohesion Fund in the 2007-2013 period, a seminar was, therefore, organised with academic experts, to gauge the extent of knowledge among economists about what the EU funding available for the period should have been invested in to reduce regional disparities and to help overcome the obstacles to sustainable development. The aim was equally to assess how much economists know about where the funding provided for the present programming period ought to be directed to stand the best chance of achieving the twin objectives of growth and job creation which have been set. The answer is clearly of importance since it gives an indication of the extent to which it is possible, from this perspective, both to assess the allocation of funding in the previous period as well as that proposed in the Operational Programmes formulated by Member States for the present period in terms of the likely effects and to advise on how the funds should be spent.

The experts invited to the seminar were:

- Jiří Blažek, Associate Professor at the Department of Social Geography and Regional Geography, Faculty of Sciences, Charles University in Prague and member of the Policy Advisory Unit to the Ministry for Regional Development of the Czech Republic
- Sandor Kerekes, Professor at the Corvinus University of Budapest and member and Vice-President of the National Environmental Council and Member of the President's Environmental Scientific Council of Hungarian Academy of Sciences

- Andrés Rodríguez-Pose, Professor of Economic Geography at the London School of Economics and President-Elect of Regional Science Association International
- Pawel Swianiewicz, Professor of Economics and Head of the Department of Local Development and Policy at the Faculty of Geography and Regional Studies at the University of Warsaw, adviser to the Polish President on local government issues and member of the Executive Board of European Urban Research Association
- Mirko Titze, Senior Economist and Coordinator of the Centre for Evidence-based Policy Consulting at the Department of Structural Change of the Halle Institute for Economic Research
- Lena Tsipouri, Associate Professor at the Department of Economic Sciences at the University of Athens and the chairperson for the EU Innovation for Growth Group
- Ron Martin, Professor of Economic Geography at the University of Cambridge, Research Associate of the Centre for Business Research of Judge Business School and appointed Member of Lead Expert Group on the Future of Cities, UK Government Office for Science
- Gianfranco Viesti, Professor of Applied Economics at the Faculty of Political Sciences at the University of Bari and Director of the research Centre CERPEM.

In the event, Ron Martin was unable to attend because of a last-minute important engagement and Peter Tyler, also a Professor at the University of Cambridge, in this case of Urban and Regional Economics, and a long-time colleague and co-author of several papers with Ron Martin, agreed to participate in his place.

The focus of discussion

The focus of discussion was on the four sets of questions listed below.

- **First set of questions:** How much do economists know about the determinants of growth and job creation at both national and regional level and about the extent to which policy can affect them over both the short and long-term? How far has the crisis changed understanding about these determinants?
- **Second set of questions:** Is it possible from the studies that have been carried out to identify how the EU funding available under Cohesion policy should be invested in order to have the most effect on growth and job creation? How much does this vary according to the time horizon adopted, or the period over which funding is intended to produce this effect? How far is it important to take account of variations in the characteristics of regions and the specific conditions which exist in them? How far is there a conflict in the use of the funding between short-term and long-term objectives? Is there a case for diverting funding from the pursuit of long-term structural aims to tackling short-term problems in periods of crisis?
- **Third set of questions:** Most of the EU funding available under Cohesion policy goes to countries in which GDP per head is well below the EU average. But is there evidence to indicate the regions in these countries in which funding should be concentrated to have the most effect in reducing economic disparities across the EU? (Should it go to the stronger regions where the effect on growth and jobs may be largest and most immediate or to the weaker regions where obstacles to development tend to be

greatest? If it goes to the former, is there evidence of a 'trickle-down' effect to benefit the weaker regions in the longer-term?)

- **Fourth set of questions:** What evidence is there that the quality of governance in the countries concerned has a major effect on the effectiveness with which funding is used? To what extent does the evidence suggest that the macroeconomic policy pursued affects the outcome of the investment carried out with the funding provided?

Each of the experts was asked to prepare a short note (1-2 pages at most) on the above questions in advance of the seminar. These were circulated beforehand to prepare the ground for discussion. Although Ron Martin was unable to attend, he submitted a note which was circulated with the others before the meeting.

This report summarises the views expressed in these notes as well as the main points made during the discussion at the seminar on each of the sets of questions. The points are unattributed, which does not mean that there was universal agreement on each and every point summarised here, but there was broad consensus on the main points.

First set of question – The determinants of growth and job creation and the way the crisis has changed understanding about these

How much do economists know about determinants of growth and job creation at national and regional level?

'Standard' growth theory is not confirmed by the evidence. Factor mobility does not act to eliminate regional disparities but even reinforces them under certain circumstances. Endogenous growth models and new economic geography models are able to explain this.

What is evident is that powerful circular and cumulative causation processes are at work in regional development, the logic of which is definable in terms not of some *primum mobile*, or primary cause, but historical momentum. According to circular cumulative causation theory, economic phenomena, such as increasing returns and agglomeration externalities, are inseparable from historical, institutional and political processes, which affect everything, from innovation to skill formation and from investment to competitiveness. Institutional and political processes, both at national and international level, can reinforce or change the self-reinforcing logic of spatial economic development but there is little control over the direction or extent of these changes.

The literature on whether regional specialisation or a diversification of activities to reduce vulnerability to external events is better for regional growth is still undecided and confused. The more recent concept of 'related variety', suggesting that what really matters for regional development is the sharing within the economy of complementary knowledge, technologies and inputs, is disputed as well. But even if the specialisation-versus-variety impasse were resolved, it would be just one element of a complex array of determinants of regional growth.

Economic theory does not provide a simple explanation for the different rates of growth of countries and regions. Better data and modelling techniques have helped to show that a variety of factors and conditions are at work, their relative importance differing over time and space. Theories or empirical studies which attempt to identify one dominant factor, such as institutions, may be interesting but none of them can be regarded as providing 'the' explanation of growth, nor are they likely to.

How much do economists know about the extent to which policy can affect the determinants of growth and job creation over the short and long term?

Following the predominant neoclassical and endogenous growth theories, the traditional policy recipe proposed by economists to support economic growth and welfare has been to invest in infrastructure, education and training and to stimulate innovation and business enterprise. Support for these is believed to have had the effect of increasing growth in the past, but there is less evidence of this in more recent periods (e.g. over the past two decades or so), especially as regards investment in infrastructure. Returns on investment in transport infrastructure for instance have been well below expectations in a number of countries.

Recent strands of 'modern' growth theories emphasise the role of innovation for (regional) economic development. They are at the heart of the 'smart specialisation' element of the Europe 2020 strategy. Although, however, 'smart specialisation', and innovation more generally, has become something of a policy mantra, the scientific foundations and empirical evidence for it are uncertain and the extent to which the policies concerned are actually leveraging determinants of growth is unclear.

The policy support for growth needs to extend across a number of different domains (education, R&D, infrastructure and so on) but there is no one policy mix that can be applied everywhere. A 'one-size-fits-all' approach, therefore, is untenable and the policy implemented needs to be tailored to the specific needs, and circumstance, of regions. On the other hand, even the best policy mix might not be able to tackle the full range of factors at work. The quality of Institutions, the cultural heritage and traditions, the agglomeration and urbanisation economies which can potentially be realised and knowledge spill-overs, as well as, of course, the geographical location and geophysical features are all factors which economic policy might have difficulty influencing to any significant extent.

What is needed to achieve stronger economic growth and increased well-being, therefore, differs from region to region. Accordingly, adopting the same policies which were successful somewhere else is unlikely to work and, indeed, might well produce perverse effects. In particular, simply because regions have the same level of GDP per head does not imply that the same policy mix should be applied. In some cases, even in regions with relatively high GDP per head, basic transport infrastructure may still be needed in other cases educational attainment levels might be relatively low and need increasing.

Identifying the most appropriate policy mix requires a comprehensive knowledge of the regional factors at work and conditions in place. Bottom-up approaches have in a number of cases proved more effective than top down ones, not only because of being based on more extensive knowledge but also because of a greater sense of ownership in the strategy applied. Accordingly, the 'right' policy mix and a 'real' feeling of ownership may well matter more than the amount of funding provided and where it is spent.

It is also important to recognise that it is likely to be difficult if not impossible to achieve multiple objectives with a single policy instrument. For example, providing support for innovation in order to foster both growth and job creation might under certain circumstances reinforce disparities rather than reducing them.

How far has the crisis changed understanding about these determinants?

Since the outbreak of the crisis, economists seem to be at a loss to know what to recommend in order to re-initiate growth at both national and regional levels.

The literature on the crisis tends to suggest that fiscal consolidation has reduced investment and by doing so aggravated the crisis, especially in the South. Ideas on 'smart consolidation' reported in the Joint Communication of DGs R&I and ECFIN – and reflected in the Juncker package to stimulate investment through an increase in borrowing – suggest that lagging regions are those most in need of investment support at present.

Although the crisis has not altered understanding about the determinants of growth as such, it has had an effect in increasing awareness of the need for structural change in the EU economies and the urgency of bringing this about and, therefore, the importance of devising effective policies for doing so. The crisis has, consequently, tended to aggravate structural problems in many countries and regions resulting in high unemployment and out-migration especially of the more highly skilled young people on whom future growth depend to a significant extent. It also led to business start-ups moving abroad from the countries most affected once they have survived the initial phase of setting up operations.

The brain-drain associated with outward migration is seen as a particular problem that policy should address because of its likely adverse effect on future development prospects. In Spain, in particular, the problem along with high drop-out rates from school has serious repercussions on the work force available. In Greece, although school drop-out rates are lower, the brain drain could have a major impact on future growth.

This does not mean that movement of labour should be restricted. On the contrary, migration it is a powerful force for helping to balance labour markets and for correcting skill shortages and, as such, a potential source of growth. Instead, policy efforts need to be focused on ways of encouraging the young people leaving to return in the future to use their skills at home. This applies equally to the business start-ups moving abroad that should be encouraged to set up activities in their home country as well as elsewhere.

Many of the weakest regions have suffered most from the crisis not only because of their more severe structural deficiencies but also because of their greater need for investment, the funding for which has been reduced to a major extent by fiscal consolidation.

The crisis has highlighted not only the need for structural change but the importance of manufacturing, and tradable goods and services more generally, in this regard ensuring that regions are capable of generating the export earnings they need to support their growth and development in an increasingly competitive global economy. EU regions need to go both 'upstream' and 'downstream' in global value chains by specialising in innovation, R&D and skilled labour-intensive activities. Policy needs to support them in doing this and there is arguably a case for reconsidering the operation of state aids, since many regions, in the South in particular –are likely to find it difficult to develop competitive activities without the support that these provide.

The crisis and the continuing difficulty of generating growth are serving to embed inequality and social exclusion in the EU, which is not only harmful as regards social cohesion but equally damages

the prospects for economic growth. In consequence, strengthening social inclusion is a central issue for policy in the EU and will continue to be so for some time to come. In many countries the Structural Funds are the main source of finance, and in some cases, the only source, for tackling this issue.

Second set of questions - What should funding be invested in and how to have most effect on growth and jobs?

Is it possible from the studies that have been carried out to identify how the EU funding available under Cohesion policy should be invested in order to have the most effect on growth and job creation?

The literature on the returns to EU Cohesion policy funding is somewhat confusing. The findings of academic analysis on the impact of policy vary enormously depending on the data used, the estimation methods applied and the time periods considered and even, to some extent, the *a priori* positions held by the researchers concerned.

Successive reports by the European Commission – without necessarily being uncritical or overlooking some of the problems – have tended to highlight the positive effects of Cohesion policy. For example, in the Fifth Cohesion Report it is stressed that during the 2000–2006 period, the policy led to the creation of around one million new jobs across the EU and contributed to increasing the GDP of some of the poorest regions by as much as 10% (European Commission, 2010). A number of independent researchers (e.g. Cappelen et al., 2003; Bouvet, 2005) have also been broadly supportive of the policy. Becker et al. (2010) found evidence that EU Structural Funds had a causal effect in increasing growth of GDP per head, though they were unable to confirm that it led to higher employment growth. Bade and Alm (2010), in the other hand, did find evidence that investment grants produced such an effect in Germany at least.

At the same time, many studies by independent economists have tended to criticise the policy for either not achieving its objectives (e.g. Boldrin and Canova, 2001; García-Milà and McGuire, 2001; de Freitas et al., 2003; Dall’erba and Le Gallo, 2009), or for having a limited effect (e.g. Bussoletti and Esposti, 2004; Bouvet, 2005), a mixed effect (e.g. Puigcerver-Peñalver, 2004; Eggert et al., 2007) or a territorially uneven one (e.g. Antunes and Soukiazis, 2005; Percoco, 2005; Mohl and Hagen, 2010).

In practice, understanding of the circumstances under which regional policy is effective is limited. This is due partly to a lack of evaluations assessing the impact of interventions, partly to the difficulty of identifying causality. Reliable results can best be produced by counterfactual analysis applied to a ‘treatment’ group (i.e. the group receiving support) and a control one (i.e. one not doing so), but the application of such an analysis requires access to comprehensive datasets which include information on both groups which tends to be very difficult to obtain.

Despite the limited extent of ‘hard-counterfactual-evidence’, Cohesion policy is still on the ‘right track’, in the sense that it is aimed at activating the levers of growth and job creation that economists generally advise focusing on. By and large, the consensus is that it should continue to do what it has been doing but to do it a better, making improvements where possible in all the various phases of the policy process.

‘Doing it better’ starts in many regions with the design of programmes. As indicated above, these need to be tailored to the specific needs and circumstances of regions, which requires not only a

thorough understanding of the factors at work but a capacity for strategic management and the ability to identify opportunities for development and ways of realising them. In practice, however, it is too often the case that the chief architects of Operational Programmes do not have this necessary background and capabilities to do this. Since each individual region has its own potential for development, the key to a successful policy is to do different things in different places but everywhere in a 'goal oriented way' by setting benchmarks and measuring progress towards achieving them. At the same time, it is unrealistic to expect that regional disparities in GDP per head will be, or can be, eliminated completely, except perhaps in the very long-term, simply because of the differing potential of regions for economic growth. Accordingly, it is more meaningful to seek to reduce disparities in these terms to an 'acceptable' level rather than setting a policy objective of achieving the same level of GDP per head everywhere.

'Doing it better' also means improving policy implementation, from administration to monitoring and evaluation. The strengthening of administrative capacity and of the institutional framework is in many regions a prerequisite for achieving such an improvement. The extent to which policies contribute to local job creation is influenced in particular by the way public procurement is organised. For local entrepreneurs not familiar with the tendering process but who potentially are able to create local jobs, including for the less skilled, the procurement process is often a barrier to entry. It is much easier to manage than for larger, high tech and more productive firms, but these tend not to create local jobs for the low skilled. This not only prevents the labour market absorbing those in the most precarious situation, such as the Roma in a number of countries, but it also works against social cohesion.

More focused support to help regions to upgrade activities both 'upstream' and 'downstream' in global value chains, as suggested above, also requires careful reflection on the kinds of instrument to be used in this respect. This is not a matter of investing in the development of new instruments but of choosing between those which are already available (between loans, venture capital and other repayable financial instruments as well as grants and subsidies), or rather a combination of them, in order to best achieve the specific objectives set for each region. There might be a case for reviewing the role of financial intermediaries and public investment banks in this regard as well as the potential role of EU-level solutions.

The Commission has a role to play in encouraging improvements in the implementation of policy through both incentives, by rewarding good performance through, for example, some form of contingency fund, and penalties, by withdrawing funding for poor performance or deviating from an agreed strategy. The latter are important as they tend to increase the responsibility of those carrying out the programmes for the policy and strengthening their ownership of them.

How far is there a conflict in the use of the funding between short-term and long-term objectives? Is there a case for diverting funding from the pursuit of long-term structural aims to tackling short-term problems in periods of crisis?

Structural change, if it is significant, typically takes place over a long period of time. Any policy for helping to bring it about is, therefore, by definition a long-term one. For example, the structural change that occurred in Ireland before the onset of the crisis, and which is presented in the literature is an example of policy success (such as by the World Bank) took over 50 years to be achieved. A similar long time horizon was needed to overcome the industrial decline that London, which once had the highest density of manufacturing in the UK, experienced several decades ago. Any

meaningful assessment of a policy aimed at achieving a fundamental change in the structure of a regional economy has to take explicit account of the time required for the effects to become evident. This is the case as regards Cohesion policy, for which the relevant time horizon is often longer than the political lifetimes of the people in the regions responsible for implementing it.

A further aspect which it is important to take into account is that the research associated with the pursuit of innovation is almost by definition an uncertain activity which involves a real risk that nothing of commercial value will come of it, that there will be little or no return on at least some of the investment undertaken, especially in the short run. Policy support for R&D, therefore, requires acceptance of this risk, which may be politically difficult to do in practice. This might encourage the adoption of a low risk approach, to invest in areas where the returns are less uncertain but likely to be smaller, where, therefore, there is little chance of improving the competitiveness of the regional economy significantly or of bringing about the structural changes which might be needed. Both politicians and policy advisers at EU-level as well as in Member States and in the regions, therefore, need to understand that their concern to achieve short term results may not always be compatible with attaining long term objectives.

In this regard, it is worth noting that the EU funding it received under Cohesion policy is believed by some to have helped Poland to get through the global crisis without a recession. This, however, seems predominantly due to the short-term effects it had in supporting demand and there is little evidence that it had a significant impact in helping to bring about long-term structural change or increasing innovation capacity. Whether this should be the role of the Structural Funds is open to question.

At the same time, there is an urgent and inescapable need for short term results in many regions across the EU, given the lack of growth and high level of unemployment. A crucial question for Cohesion policy in the 2014-2020 period is how to design a strategy so that it achieves short-term goals as a first step in the pursuit of long-term structural objectives and it does not entail a diversion of resources away from this.

Third set of questions - Which regions should funding be invested in to have the most effect on growth and jobs?

Is there evidence to indicate the regions in which funding should be concentrated? Should it go to the stronger regions where the effect on growth and jobs may be largest and most immediate or to the weaker regions where obstacles to development tend to be greatest?

A few years ago, in 2009, the World Bank published a report on *Reshaping economic geography*, which called for a concentration of policy efforts on more advanced regions and, in particular, in agglomerations, as the most effective way of achieving long-term growth in both the national economy and the weaker regions. There are many reasons to disagree with the conclusions of the study even if it is true that the concentration of Cohesion policy funding in regions with a GDP per head below the EU average has not always delivered the expected returns. The main arguments against such a policy are:

- It has not been demonstrated at all that concentrating investment in more advanced areas increases the overall growth rate.

- Despite claims by New Economic Geographers, the evidence that richer, larger, and/or more agglomerated regions always perform better is limited. Recent research by the OECD and by Parkinson et al. (2012) has underlined the presence of considerable dynamism and employment generation in intermediate and peripheral regions of the EU. According to the OECD, two thirds of growth over recent years has taken place outside the main agglomerations.
- The return on investment is potentially higher in the periphery than in the core regions. A relatively small amount of funding in the periphery can make a big difference while the same amount invested in the more central regions might have a negligible effect ('just like a drop of water on a hot stone').
- Even if there were solid evidence that some core areas are more dynamic than those elsewhere, historical evidence indicates that this may or may not remain the case in the future and assuming it to be so would be risky (like betting everything on just one horse in a race). Concentrating support in just one type of region, therefore, might well leave significant growth potential untapped, as well as giving rise to high social costs, along with perhaps serious economic ones as a result of the large migration flows it is likely to generate.

Regional development policies should not be 'governed' by economic rationale alone. Economic efficiency might *ceteris paribus* be higher if support is concentrated in a particular region or on a particular economic activity. But the critical mass concerned is not known and the social cost which might result from concentrating funding in the most prosperous regions is equally not known and might be far too high to be justifiable. In short, economic efficiency criteria alone are not sufficient to take decisions on the distribution of funding – political and social criteria need to be taken into account as well.

On the other hand, there is evidence that in some regions which are especially weak support from Cohesion funding is not producing any effect at all and is essentially to a large extent a waste of money. This is the case, for example, for a number of villages in rural areas in Hungary which have been abandoned by young people and which are therefore almost exclusively inhabited by the elderly. The demographic problem which this has led to cannot be solved by capital investment and although these regions are eligible for Cohesion funding, it is more appropriate to invest in trying to boost long-term growth in other, more prosperous areas to help provide the social infrastructure required by the elderly or to invest directly in this. This suggests a need to reconsider the criteria used to define regions eligible for receipt of EU funding, or more specifically the funding aimed at assisting the less developed regions to grow.

Is there evidence of a 'trickle-down' effect to benefit the weaker regions in the longer-term in case the funding is concentrated in the stronger regions?

The debate on the existence of a trickle-down effect from stronger to weaker regions remains open (though recent research indicates that a 'trickle-down' effect with regard to individuals has not been at work). In the past, there were two main channels through which the trickle-down effect might operate:

- higher national income enabled a larger amount of public goods and services (education, health, public transport and so on) to be provided in all regions;

- stronger development in core regions encouraged investment in the peripheral regions, driven by wage differentials and a higher marginal rate of return on capital.

There are reasons to believe that both channels are much weaker under the present circumstances because of:

- public budget constraints and reductions in public expenditure;
- globalisation, resulting in investment from core regions now being transferred to peripheral countries (many of them outside the EU) much more than to peripheral regions inside the same country.

Fourth set of questions - How important is the institutional and policy context to the success of investment?

What evidence is there that the quality of governance in the countries concerned has a major effect on the effectiveness with which funding is used?

Governance is important and must be improved to increase the effectiveness of policies. However, measuring the quality of government is difficult. This difficulty could be one of the reasons why there is so little evaluation evidence on the relationship between governance and regional development. A recent evaluation studying the impact of governance in Central and Eastern Europe on the performance of Cohesion policy in the 2007-2013 programming period (carried out as part of the project 'Growth-Innovation-Competitiveness - Fostering Cohesion in Central and Eastern Europe' under the EU 7th Framework Programme) came to the conclusion that domestic institutional conditions in these countries had an adverse impact on the quality of the development strategy being pursued. As a consequence, it also weakened the effects of the expenditure carried out and reduced the achievements from it (GRINCOH 2014). Evaluation evidence from Poland tends to confirm this finding.

Serious research examining the role of institutions in affecting policy outcome is comparatively recent, but the results obtained so far tend to indicate that it is a critical factor of policy success. The larger the funding, the larger the impact of institutional quality on policy results.

'Doing Cohesion policy better' has therefore much to do with improving institutions. There is a clear need for capacity building in many Member States at all stages of the design and implementation of policy. The Commission is potentially an important player in this regard, in terms not only of providing incentives and imposing penalties but also of giving advice. This is more likely to have an effect in the present difficult circumstances than in earlier times because both national and regional authorities are looking for ways of getting out of the crisis, or at least alleviating its effects. Technical assistance as part of Cohesion policy programmes should be used in a more effective way than in the past to support capacity building. There is equally a role for intermediaries in this regard and for rethinking the kinds of initiative which could best be implemented to increase the capacity of those responsible to formulate and carry out programmes. While learning from good practice should always be encouraged, care needs to be taken in identifying appropriate examples which has often not been the case in the past. It is, therefore, important that the practices which are held up as good ones are genuinely so, otherwise there is a real risk of credibility being lost.

It needs be recognised that building institutional capacity takes time. In a number of Member States, and especially in those where regions were created solely for the purpose of implementing Cohesion policy, it might well be the case that a substantial period and a good deal of support is needed for the authorities and other bodies to become sufficiently effective in managing the policy.

To what extent does the evidence suggest that the macroeconomic policy pursued affects the outcome of the investment carried out with the funding provided?

Macroeconomic policies are 'centre-stage' in the EU at present because of fiscal consolidation. The evidence suggests that in many countries such policies are leading to a reduction in:

- 'growth-friendly' expenditure more than proportionally (Sixth Cohesion Report);
- expenditure aimed at social cohesion more than average;
- public investment (which is down to unprecedented low levels in a number of Member States) more than current expenditure;
- innovation and R&D efforts.

There is evidence (e.g. in Italy) that the adverse effects of fiscal consolidation are largest in the less developed regions, due to both increases in taxes and larger cuts in public expenditure (including in both cases at local level).

The question of whether Cohesion policy funding should be used to support measures which reduce social exclusion and tackle other short term needs is one which it is difficult to answer since in many countries, as noted above, the Structural Funds are the only resources available to finance such measures.

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