REFORMING EU COHESION POLICY
A reappraisal of the performance of the
Structural Funds

John Bachtler and Grzegorz Gorzelak

The aim of this article is to reassess the effectiveness of Cohesion policy. It examines the evidence for the performance of the policy since 1988, with a view to testing four main assumptions: that convergence is taking place at national and regional levels; that Cohesion policy has made a durable contribution to convergence and regional restructuring, in terms of GDP and employment; that Cohesion policy funds have been spent in the most effective way; and that there is a wider added value from Cohesion policy spending. The article goes on to consider issues for the budget review and how the effectiveness of Cohesion policy at the European level might be improved.

Introduction

The European Union is now approaching the 20th anniversary of the reform of Structural Funds agreed in 1988. In three programme periods (1989–1993, 1994–1999 and 2000–2006), the EU has spent some €550 billion on promoting convergence and regional development at European and national levels, particularly in the EU15 Cohesion countries. A further €308 billion (2004 prices) is programmed for the 2007–2013 period, with an increasing share going to the new Member States.

However, concern about the performance of Cohesion policy is growing. A distinctive feature of the debate on the 2007–2013 Financial Perspective was that the effectiveness of Cohesion policy came under serious scrutiny. In contrast to the resolutely positive assessments of the Structural Funds in successive Cohesion Reports (CEC, 1996, 2001, 2004), several Member States questioned whether the existing approach to Cohesion policy was achieving its goals and represented good value for money. These policy positions drew on research which was critical of the effects of Cohesion policy on convergence, growth and employment, such as Boldrin and Canova (2001), Ederveen et al. (2002), Midelfart and Overman (2002) and Tarschys (2003). Further impetus to these arguments was given by the Sapir Report, which also doubted the achievements of the Cohesion policy and recommended a radical reform of EU funding (Sapir et al., 2003).

In response, the Commission's proposals for reforming Cohesion policy in 2007–2013 (CEC, 2004), subsequently agreed by the Council and Parliament, shifted the focus of Structural Funds towards supporting the relaunched ‘Lisbon agenda’ to promote faster growth and more employment. It established a new strategic framework for cohesion based on ‘Community strategic guidelines’ drawn up at EU level, and ‘national strategic reference frameworks’ prepared by each Member State. Based on initial indications from...
the Operational Programmes for 2007–2013, these changes appear to be encouraging
greater levels of Structural Funds spending on priorities such as R&D, innovation, ICT and
entrepreneurship (Bachtler & McMaster, 2007).

Notwithstanding these shifts, the arguments about the longer-term direction of
Cohesion policy have not gone away. Part of the 2006 inter-institutional agreement was a
mandate for the Commission to carry out ‘a full, wide-ranging review covering all aspects
of EU spending . . . to report in 2008/09’. As part of this review, searching questions will be
asked of Cohesion policy, with some Member States again seeking radical change. This is
partly acknowledged in the Fourth Cohesion Report, which initiates a debate on the future
challenges for Cohesion policy and whether there is a better way to promote
development/growth and jobs (CEC, 2007).

Against this background, the aim of this article is to reassess the effectiveness of
Cohesion policy. It examines the evidence for the performance of the policy since 1988,
with a view to testing four main assumptions: that convergence is taking place at national
and regional levels; that Cohesion policy has made a durable contribution to convergence
and regional restructuring, in terms of GDP and employment; that Cohesion policy funds
have been spent in the most effective way; and that there is a wider added value from
Cohesion policy spending. The article goes on to consider issues for the budget review
and how the effectiveness of Cohesion policy at European level might be improved.¹

Convergence or Divergence?

The first question is whether convergence has been taking place. For the EU15, the
Commission has argued that income and employment disparities have been narrowing
since the mid-1990s, at both national and regional levels (CEC, 2004). Over the period
1994–2001, the Commission found that GDP growth in the four Cohesion countries in
EU15 had averaged 1 per cent per year higher than the EU average, and employment rates
had increased much more than the EU average (except in Greece). GDP per head in the
Objective 1 regions had also grown faster than in the rest of the EU.

These patterns are confirmed in other research which agrees that overall economic
trends show evidence of long-term convergence between Member States and between
the least-developed regions and the EU average (Leonardi, 2005, 2006). A meso-review of
several studies by Ederveen et al. (2002) suggested that convergence was taking place at
national level but slowly, at a rate of about 2 per cent per year, and that regional
convergence within countries was also occurring. However, the extent of regional
convergence is disputed, with some arguing that regional disparities have remained
unchanged (Boldrin & Canova, 2001; Fagerberg & Verspagen, 1996) or may even have
widened (Puga, 2002). Others present a more mixed picture of regional performance
depending on factors such as sectoral specialisation (EURECO, 2005; Giannetti, 2002).

In its latest assessment of regional disparities (and the first for the EU27), the
Commission re-states firmly that convergence is taking place in both national and regional
dimensions (CEC, 2007, p. 6): ‘Disparities in GDP per head between regions in the EU have
narrowed markedly over the past decade as growth in the least prosperous regions has
outstripped that elsewhere’. Although this statement is – in general – true, it hides two
opposite processes: faster growth of less-developed Member States (i.e. convergence at the national level) and slower growth of several poorer regions within the Member States (i.e. divergence at the international, interregional level). This can be demonstrated on the scatter graph of the EU regions, as published in the Fourth Cohesion Report, where we have marked the hypothetical situations of particular countries (see Figure 1).

Of particular note in an enlarged EU is that the new Member States demonstrate a clear pattern of regional divergence, much stronger than that present in the old Member States. The case of Poland – typical for other Central and Eastern European countries – is illustrative (see Figure 2).

As we can see, a rapid process of metropolitanisation of regional development has been taking place in the new Member States. This is due to the following reasons:

- The metropolitan cores were the best-prepared territorial systems to develop knowledge-intensive branches of the economy and to enter into international cooperation, previously mostly restricted to relations within the Soviet bloc;
- Post-socialist transformation resulted in an accelerated deindustrialisation and rapid development of services, and the modern service sector found the best conditions in metropolitan regions;
- Other, non-metropolitan industrial regions that witnessed a collapse of their industrial base were not able rapidly to develop a modern service sector, which resulted in delayed growth of these regions; and

![Regional patterns of new Member States](image)

**FIGURE 1**
Growth of GDP per head 2000–2004 and GDP per head 2004 and hypothetical regional patterns of new and old Member States
*Source: based on Figure 1.6 in CEC (2007, p. 10)*
backward, rural and peripheral regions have not appeared attractive for foreign capital
and have not displayed sufficient indigenous potential to assume fast growth.

As a result, the regional structure of the new Member States has begun to be shaped by
metropolitan/non-metropolitan divisions, which have led to growing regional differentia-
tion. Similar processes, but less concentrated in time, have been occurring in the more
developed countries of the EU. In most of them, the capital regions, strong metropolitan
cores or dynamic urban centres have been growing faster than the less-developed ones,
and spatial differentiation also seems to have a tendency to grow, although less than in
the new Member States.

Can Cohesion policy counteract the ‘natural’ processes of regional development in
an enlarged EU? More generally, can any policy reverse the tendency to concentrate the
fastest-growing branches of the knowledge-based economy in the most developed
territorial nodes? Can any policy accelerate growth in the less-developed regions so as to
start closing the gap with the most advanced ones?

In response to such questions, the Commission would naturally point to the
performance of the least-developed regions in the EU15 over the past two decades.
The question is how much of this performance is attributable to Cohesion policy? This is
the subject of the following sections.

FIGURE 2
GDP/inhabitant in 1995 and GDP growth (constant prices) 1995–2004 for NUTS3 regions in
Poland
Source: Bank Danych Regionalnych
The Impact of Cohesion Policy

The quantitative evidence for the impact of Cohesion policy is partly derived from evaluations and modelling research commissioned by DG REGIO. The macro-economic models vary in their estimates of the impact of Cohesion policy, but all attribute significant Cohesion policy impacts on output and income in the less-developed countries and regions of the EU (see Table 1).

Projections of economic impact made at the start of the 1989–1993 and 1994–1999 periods estimated that the funds would increase the GDP growth rate by between 0.5 and 1.0 per cent per year in the four EU15 Cohesion countries (Beutel, 1993, 1995), and by between 0.03 and 0.4 per cent in the 2000–2006 period (Beutel, 2002). Similar results for the 1989–1993 period were found by simulations using an optimal growth model, which concluded that Cohesion policy had a significant impact on the economic growth of Greece, Ireland and Portugal, and contributed greatly to their EU convergence (Pereira, 1997; Pereira & Gaspar, 1999).

The HERMIN econometric model, using a mix of planned and actual expenditure data as part of ex post evaluations, focused less on GDP growth rates (where there was found to be no permanent increase) and more on the increase in the level of GDP in Objective 1 countries and regions (ECOTEC, 2003a; ESRI with GEFRA, 2002).2 The effects of structural interventions in the 1994–1999 period were expected to lead to GDP being 4–9 per cent higher in Ireland, Spain and Portugal by the end of the decade (CEC, 1996), and, for interventions in 2000–2006, were estimated to lead to increases of 1.8–6.1 per cent. The Commission’s own macro-economic model, QUEST, which made different assumptions, calculated the impacts on GDP to be lower: for 1994–1999, an increase in GDP of 1–3 per cent in the Cohesion countries by the end of the decade and, for the 2000–2006 period, increases of 0.5–2.4 per cent (CEC, 1996).

For the 2000–2006 period, ex post evaluation results are not yet available, but some modelling work has sought to identify macro-economic impacts based on actual payment

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profiles for the largest programmes and also to project the pattern of expenditure over the period 2007–2013 (CEC, 2007). HERMIN simulations for the 2007–2013 period showed relatively low impacts for the EU15 countries, with projected increases in GDP by 2020 ranging from 0.3 per cent in Greece to 1.7 per cent Portugal, while increases for the new Member States were in the range 1.4 per cent (Latvia) to 4.4 per cent (Czech Republic) (Bradley, 2007). The QUEST model also predicted that Cohesion policy will assist convergence and increase the long-term productive potential of the EU as a whole.

These conclusions are supported by other econometric research which has found evidence that the Structural Funds have contributed positively to growth, national convergence and the reduction of interregional disparities (Beugelsdijk & Eijffinger, 2005; Cappelen et al., 2003; Ezcurra & Rapún, 2006; López-Rodríguez & Faiña, 2006). Research at national level has also identified some positive – but highly variable – economic impacts of Cohesion policy. In Spain, De la Fuente (2002, 2003) concluded that the Structural Funds in 1994–1999 had added about one percentage point per year to output growth and 0.4 per cent per year in employment growth, but with wide regional variation. In Italy, Percoco (2005) calculated the annual average impact of 1994–1999 support on growth as an additional 0.45–1.69 per cent for six Objective 1 regions over the period 1994–2005, with a cumulative impact of 3.96–6.13 per cent. Positive growth impacts were also identified by Treyz and Treyz (2003), who applied the REMI model to Cohesion policy interventions in two regions, finding increases in GDP of up to 1.8 per cent (Southern Italy) and 3.2 per cent (Andalucia). For Greece, a simulation by Lolos et al. (1995) estimated that the 1989–1993 CSF could increase national GDP by up to 1.3 per cent per year during the programme, but with an increase of only 0.5 per cent lasting beyond the end of the programme period. A later study of the Greek CSF for 1994–1999 by Christodoulakis and Kalyvitis (1998) predicted that total output in 2010 would be 9.5 per cent higher than a baseline, with growth 0.26 per cent per year higher than it would otherwise have been. Lastly, a survey of studies of Ireland’s economic performance concluded that the effects of the Structural Funds equated to an annual average increase in the GDP growth rate by up to 0.5 per cent (Barry et al., 2001).

Turning to employment effects, the ex post evaluation for the 1994–1999 period estimated that, overall, at least 798,000 gross jobs had been created in the Objective 1 regions (ECOTEC, 2003a). This scale of job creation is supported by Martin and Tyler (2006), whose time-series analysis of employment change in Objective 1 regions suggested the broad impact of Structural Funds to be some one million jobs over the 1976–2002 period. Outside Objective 1, ex post evaluation of interventions in Objective 2 regions for the 1989–1993 period estimated that 450,000–500,000 net additional jobs could be attributed to the Structural Funds programmes (Ernst & Young, 1997). A similar ex post evaluation for the 1994–1999 period (CSES, 2003) concluded that programmes had created some 567,000 net jobs.

Notwithstanding the positive effects attributed to Cohesion policy in the above studies, many of the conclusions are hedged with caveats concerning the assumptions made by the models and the data used. The different mechanisms used by the HERMIN and QUEST models lead to significant differences in the contribution of the CSFs to GDP growth. The macro-economic models have been criticised as being imprecise (Cappelen
et al., 2003) and providing insufficient insights into the actual impacts of the funds (Ederveen et al., 2006). Indeed, given the limitations experienced in the 1994–1999 ex post evaluation, the Court of Auditors (2006) recommended ‘a reappraisal of the appropriateness of an aggregate macro-modelling approach’.

Specifically, the theoretical foundations of the HERMIN model may be disputed. Composed to cover both the demand and supply sides of the process of economic growth (Bradley et al., 2004), the model is based on the assumption that the productivity of production factors increases due to the investment of external funds. Thus, improvement of transport infrastructure and an increase of the educational level of the labour force should directly be translated into accelerated economic growth. Though the demand-side effects of the HERMIN model are not disputable, its supply side seems to be its weak point; most research on regional development in the EU that does not support the convergence hypothesis relates to this assumption of increased productivity of production factors.

Other types of studies also suffered from deficiencies of data on financial allocations or outputs. Again, the Court of Auditors (1998) found that monitoring indicators, data collection systems and information on outcomes for the 1989–1993 and 1994–1999 periods were often inadequate. These shortcomings have created considerable difficulties for any kind of accurate measurement and quantification of the employment effects of the funds (CSES, 2006).

More substantively, research has questioned the contribution of Cohesion policy to convergence. Trenchant criticisms are made by Boldrin and Canova (2001), who found minimal effects of Cohesion policy on regional disparities or long-term growth rates. According to their reasoning, three factors are responsible for low regional income: low total factor productivity; a low employment rate; and a high share of agriculture. They conclude that regional and structural policies serve mainly a redistribution purpose, motivated by the nature of the political equilibrium and that they have little relationship with fostering economic growth.

Similarly, Basile et al. (2001) could not find evidence demonstrating that EU-funded regions were behaving differently from other regions with respect to income, unemployment and productivity (at least in the period up to the mid-1990s). An assessment of the impact of Structural Funds on the convergence process of 145 European regions over the 1989–1999 period by Dall’erba and Le Gallo (2003) found a mixed picture of performance: the funds made a limited contribution to growth with small spillover effects, especially in peripheral regions, a conclusion which echoed earlier research by Martin (1999). Rodriguez-Pose and Fratesi (2004) acknowledged that Structural Funds may have contributed to the stabilisation of regional disparities and had an impact on the overall growth of the EU, but emphasised the lack of convergence among EU regions since 1988.

**Explaining the (Lack of) Influence of the Funds**

In drawing wider lessons from the performance of Cohesion policy, it is important to keep the influence of the funds in perspective. As Hallet (2002) and others have stressed, the income performance of countries and regions cannot be attributed exclusively to regional policy expenditure, and judgements on the effectiveness of Cohesion policy
do not always take account of the counterfactual situation. Nevertheless, it is possible to identify several important explanations for the funds’ performance.

First, a critical factor for explaining the variable impact of Cohesion policy appears to be the investment mix of Structural Funds programmes (Percoco, 2005). Specifically, it seems that the focus on infrastructure and business support has been excessive. Indeed, Rodríguez-Pose and Fratesi (2004) state that only funds directed to education and human capital have a positive medium-term effect on the acceleration of growth and that, in the long run, the traditional approach may even prove harmful to the lagging regions because it decreases their competitiveness. In the view of Basile et al. (2001), the effectiveness of infrastructure investment depends on accompanying economic development strategies and policies such as labour market reforms, which have often been lacking. According to De la Fuente and Vives (1995), the limited contribution of infrastructure to regional convergence was particularly notable in the early 1990s when such investment was a major component of most Objective 1 programmes. It has also been suggested by Martin (1998) that policies to finance public infrastructure were primarily beneficial for promoting convergence between countries and may not encourage convergence between regions within countries. Investment in transport infrastructure may also have counteracted convergence given the potential double-edged impact of increased accessibility (Puga, 2002). Such critical reflections are shared by the most recent strategic evaluation of transport infrastructure conducted for DG REGIO (ECORYS, 2007) which concluded that: ‘Although positive effects have been found . . . negative macro economic effects can be noticed . . . such funding cannot do more than marginally help to narrow the gap between income levels in CF [Cohesion Fund] countries and the EU-average’ (p. 14).

With respect to the role of business support – again a key feature of Cohesion policy programmes in the 1990s – there is evidence from Italy that business incentives may have been helpful in promoting additional employment and economic activity, but they appear to be less effective in the poorer regions, presumably because of the absence of the necessary pre-conditions for exploiting such incentives (Bondonio & Greenbaum, 2006). This was also a central argument of the critique of Midelfart-Knarvik and Overman (2002), who attributed the slow process of national and regional specialisation partly to the limited effect of national state aids in attracting economic activity and employment. While they acknowledged the influence of Structural Funds on the location of industry, notably R&D-intensive activities, they concluded that this may have acted against the comparative advantage of less-developed Member States with low endowments of skilled labour. Only in Ireland did the funds reinforce comparative advantage rather than offset it. This was confirmed by other research which questioned EU structural support for ICT-related industries in the Cohesion countries, with the exception of Ireland (Lains, 2006).

Lastly, several studies have noted that the contribution of Cohesion policy to growth and convergence is conditional on institutional capacity (e.g. Cappelen et al., 2003; Ederveen et al., 2002). Other commentators have drawn attention to the fact that the benefits of the Structural Funds alone are likely to be marginal in the absence of openness (and responsiveness) to trade and investment opportunities, financial stability and supportive national-level macro-economic policies (Bradley, 2007; Bradley et al., 2004; Garnier, 2003). This is not just a national issue. Bailey and De Propris (2002) have argued
that the weakness (or even the absence) of regional investment capacity prevented the poorest regions, initially at least, from utilising Structural Funds effectively. This is substantiated by Milio (2007) who cites the damning example of Sicily where the ‘management, programming, monitoring and evaluation capacity for implementing structural interventions appears to be, after 15 years, still at a “starting level”’ (p. 439).

The recent study by Ederveen et al. (2006) continues this line of reasoning. On the basis of the econometric analyses for the ‘old’ EU-13 (excluding Germany and Luxembourg) for the years 1960–1995 (in five-year periods) they found that EU assistance did not foster the capacity for growth in the less-developed Member States; the effectiveness of Cohesion policy was dependent on a ‘suitable’ institutional structure, lack of corruption and openness of the international economy. They make the daring thesis that, while the highly developed countries, with their open economies and high levels of institutional development, gain acceleration impulses from the influx of external funding, in other cases – mainly in the less-developed countries – the Structural Funds can even decrease the rate of growth. The estimates made by Ederveen et al. (2006) for the new Member States indicate that the massive inflow of EU funds may lead to the slowing down of their growth due to negative partial elasticities of growth relative to the influx of funds, caused by the level of institutional development, particularly corruption.

**The Added Value of Cohesion Policy**

Turning now to the qualitative effects, the Commission has often argued that the impact of Cohesion policy cannot be limited to its influence on GDP and employment alone, and that there is a wider ‘added value’ of the policy associated with the way it is designed and implemented. Added value is a disputed concept; definitions and interpretations vary greatly, but it is possible to identify several broad categories of effects associated with Cohesion policy (Bachtler & Taylor, 2003).

First, a primary source of added value is ascribed to the effect of EU funding in leveraging additional resources for economic development. According to Commission data, for every euro contributed through EU Cohesion policy, an extra €0.9 was generated on average in Objective 1 regions in the 2000–2006 period, rising to €3 in Objective 2 regions (CEC, 2007). There is evidence that the funds have safeguarded or increased the level of domestic regional development spending, in particular at the local level (Bachtler & Taylor, 2003). According to OIR (2007), the availability of EU investment encouraged ‘financial pooling’ by mobilising resources from other funding partners; the leverage effect on private investment was particularly significant in Austria, Germany and the Netherlands, although less important in the Cohesion countries, France and the UK. The evidence from some evaluation studies is that the additionality of funding was high at project level, and that, in some regions, the funds acted as a catalyst for regeneration (CSES, 2003; ECOTEC, 2003b).

Second, added value is said to have been derived from the multi-annual planning process, which encourages participants to adopt a ‘strategic’ approach to regional development leading to the introduction of new ideas and approaches, better project selection and greater coherence of co-financed projects (Bachtler & Taylor, 2003; OIR, 2007; RIDER II, 2003). Examples have been cited of the lessons of EU strategic programming...
being transferred into domestic policies (Mairate, 2006). Through Commission influence, the funds have also sometimes played a role in shifting national policy interventions away from the traditional focus on infrastructure and business aid to emphasise human resources, innovation, community development and the horizontal themes (Bachtler & Méndez, 2007).

Third, one of the most frequently cited areas of added value associated with the Structural Funds is partnership. Evaluation studies generally conclude that this fundamental principle of Structural Funds programming has brought enhanced transparency, cooperation and coordination to the design and delivery of regional development policy, and better quality regional development interventions as a result. The commonly perceived benefits of partnership are new forms of governance, stronger involvement of local actors, collaborative working and cooperation on economic development initiatives, improved decision-making in the management of economic development interventions (e.g. project selection) and opportunities for exchange of experience (OIR et al., 2003; Roberts, 2003; Tavistock Institute, 1997).

A fourth aspect of added value concerns the monitoring and evaluation obligations of the funds which, the Commission argues, have improved the efficiency of programme implementation and led to more transparency and better policymaking (CEC, 2002). The embedding of these practices in regulatory frameworks is seen as not only fulfilling transparency and accountability needs but also supplying management information to guide the strategic steering and effective management of programmes (Bachtler & Taylor, 2003). Again, these procedures were found to be influencing national policies, increasing the profile, culture and practice of evaluation in some Member States (Bachtler & Wren, 2006).

Finally, there are wider implications for European integration associated with the funds. The Commission considers that Cohesion policy has made a contribution to the aims pursued by other Community policies; it has ‘cemented’ the Internal Market and is a factor in the stability of monetary union (CEC, 2002). Policies for territorial cooperation contribute to the integration of border regions and enhanced cooperation among regions and urban areas across Europe (CEC, 2004; OIR, 2007). There is also an important ‘learning effect’: the funds provide a framework for exchange of experience, mutual learning and lesson-drawing on regional development practices across countries and regions (Bachtler & Taylor, 2003). It has been suggested that an important intangible effect of the Structural Funds is to ‘give a profile to Europe’, making the EU more visible to citizens, communities, businesses and public authorities. Research on the impact of EU spending on public opinion showed that the Structural Funds have a high level of awareness and positive public recognition (European Parliament, 2003).

There are also counterarguments to the claims of added value. Research on implementation methods under the Structural Funds has highlighted the complexity and administrative cost of programming, financial management and control, and auditing (OIR et al., 2003). Contrasting assessments of added value in Objective 1 and Objective 2 regions suggested that the benefits were more prevalent in the latter regions. Whereas the ex post evaluation of Objective 2 for the 1994–1999 period (CSES, 2003) found considerable evidence of ‘Community added value’ (in areas such as strategic coherence, integrated development, management capability, innovation), the counterpart evaluation
for Objective 1 was less positive (ECOTEC, 2003a). Findings included: programmes implemented with a lack of strategic coherence, supporting too many different activities with no overarching development concept; little evidence of new policy thinking; a focus at management level on absorption, with insufficient attention to strategic policy issues; and deficiencies in project appraisal and selection systems.

Research in the UK – covering both Objective 1 and 2 regions – also questioned several of the added value effects of the funds (ECOTEC, 2003b). While acknowledging new policy approaches in some domains, there was found to be no evidence of a consistent influence of Cohesion policy on domestic policies. EU-funded projects were not substantially different from domestically funded ones in terms of their quality, and the impact on partnership was limited compared to domestic programmes (and largely historic). Further, the evidence on the leveraging in of additional resources was inconclusive, while the administrative processes were often regarded as burdensome.

Conclusions: Issues for a New Cohesion Policy

The Fourth Cohesion Report shows the wide differences in GDP per head between countries and regions of the enlarged EU, and major differences in growth rates, particularly between metropolitan cores and peripheries (CEC, 2007). Further, regional differentiation appears to be growing, especially between metropolitan and non-metropolitan regions in the new Member States. However, research has cast some doubt on the ability of Structural and Cohesion Funds to deliver sustainable growth in lagging regions; indeed, it has been argued that the ‘traditional approach’ of Structural Funds may even have been harmful to the less-developed regions by reducing their competitiveness. In this context, what are the main issues for the debate about reforming Cohesion policy?

First, research on the development needs of the new Member States underscores the importance of appropriate and forward-looking strategies (Davies et al., 2006; ECORYS, 2007; GHK, 2006). These countries have serious deficiencies in infrastructure (especially in the areas of transport and the environment) which hinder long-run growth, most notably in Romania, Bulgaria and Poland. However, infrastructure investment needs to be undertaken with a more strategic, integrated and focused approach than it has been in the past. The main need, longer-term, is to upgrade human and knowledge capital, shifting the strategic focus of intervention away from infrastructure and towards education (including higher education), training, innovation, technology transfer and diffusion. The problems of low employment/high unemployment – or, as recently (at least in Poland), scarcity of skilled labour due to massive outmigration – are often spatially concentrated in restructuring or backward regions and among people with obsolete skills, requiring support in areas such as (re)training, alternative labour market policies, improved transport links/services for commuting, business support and (in some cases) labour mobility.

Second, insufficient attention has been paid to institutional capacity, a serious constraint on designing and implementing more sophisticated strategies, especially in the new Member States. Despite the investments in the pre-accession and 2004–2006 periods, most countries have weaknesses in terms of the administrative structures and systems needed for managing and delivering Cohesion policy effectively. This is part of broader
public administration concerns, including: the lack of a strategic approach to economic
development; inadequate coordination of institutions and policies; corruption and lack of
accountability; poor financial audit and control; insufficient separation between politics
and administration in payment decisions; high staff turnover; lack of specialist skills and
equipment; fragmentation of sub-national authorities; and frequent institutional change
(Davies et al., 2006). As noted by Ederveen et al. (2006), it is arguable that funding should
first of all be earmarked for institution building; only when the institutions are of a
sufficient quality can the promotion of growth be effective.

A third issue is whether Cohesion policy spending in the Convergence regions
should incorporate a greater degree of conditionality that goes beyond the policy and
administrative requirements for managing Structural and Cohesion Funds. A key factor is
the wider domestic regulatory and policy framework. Given that public investment alone
will be insufficient to address all development needs, it is important that countries have
appropriate macro-economic policies and regulatory frameworks for labour, product and
capital markets. In some new Member States, for example, labour market regulations
provide disincentives to employment creation, and business development is hindered by
issues such as legal frameworks, tax systems and capital availability (Davies et al., 2006).

Fourth, the relationship between the EU and Member States should be reviewed.
With greater regional differentiation within Member States, and the growing complexity of
local and regional development, it is arguable that the main role of Cohesion policy should
be to strengthen the ability of national governments to operate effective national regional
policies in line with overall EU objectives, as well as transnational development issues. The
first step has already been taken with the introduction of National Strategic Reference
Frameworks; an extension of this approach could see the Commission withdrawing from
involvement with individual national and regional operational programmes and focusing
more strongly on the strategic level to ensure that national regional policies have greater
impact. Such a move would potentially ‘liberate’ the Commission services (notably DG
REGIO) from its currently under-resourced role in negotiating and monitoring large
numbers of programmes through a myriad of priorities over which it has diminishing
leverage under the proportionality principle. This would allow the Commission to focus
more on supporting strategy development (notably by adding ‘policy value’ to national
regional policies by promoting innovation, experimentation and knowledge transfer) and
helping to build much-needed institutional capacity at national and regional levels, as well
as its existing functions of financial control and audit.

Finally, the debate needs to consider the principles of the policy. For much of the
past 20 years, the use of Cohesion policy resources has been governed by the assumptions
of ‘traditional’ regional policies of the post-war period originating in Keynesian doctrine
and state interventionism in a resource-based economy. Traditional regional policy was
both formulated and pursued in what Castells (1997) dubbed the ‘economy of places’, an
economic reality where specialised economic and urban systems functioned in a way in
which they were much more isolated from one another than is now the case. As a result of
the shift to an open, knowledge-based economy, and from quantitative to qualitative
development factors, traditional approaches have become much less effective. Castells
calls the current model the ‘economy of flows’, that is a mutually interdependent system,
with a dominant role for the flows of goods, people, capital and, especially, information. In the current era, countries and regions will only gain lasting competitive advantage if they can produce innovation on a steady basis. Exerting an influence on this new economic model must take different forms than was the case under the previous paradigm.

The paradigm shift has been partly recognised by the Commission in their development of new assumptions for Cohesion policy for 2007–2013, drawing on the Lisbon strategy (Council, 2006): ‘These strategic guidelines should give priority to investment in innovation, the knowledge economy, the new information and communication technologies, employment, human capital, entrepreneurship, support for SMEs or access to risk capital financing’. It is instructive to note that the Commission’s original version of the Guidelines (CEC, 2005) was considerably more definitive in the need for a shift in policy focus but was ‘diluted’ at Member State insistence.

Maintaining such a direction in reforming Cohesion policy also calls for a reconsideration of the concept of cohesion. Arguably, cohesion should be understood in functional terms, and not as an effort to reach convergence. Convergence is an approximation of static states, whereas cohesion is dynamic by nature, being the opposite of entropy. Moreover, convergence is difficult to achieve, certainly with the limited resources available at EU level. Cohesion should be liberated from its ‘equalisation’ underpinnings and should be understood rather as harmony and collaboration (economy of flows), lack of destructive pressures and irresolvable conflicts, the possibility for co-existence and cooperation between individual components. Following this line of argument, an alternative understanding of the individual aspects of cohesion would involve a policy focus on three elements: economic cohesion, denoting the possibility for effective cooperation between economic agents, lowering transaction costs, and harmonising relationships between businesses and their institutional environment; social cohesion, eliminating barriers to horizontal and vertical mobility through helping to overcome differences in levels of education, career advancement and material status; and territorial cohesion, removing constraints on spatial development which restrict the achievement of social and economic cohesion, such as eliminating barriers to transport, connecting the major nodes of European and national space, and developing research and business networks.

These are of course only illustrative aspects. The key point is that the 2008–2009 policy review should provide an opportunity to stand back from the budget-driven, incrementalist type of discussion characteristic of previous reform debates and discuss the fundamental principles and philosophy of Cohesion policy for the long term in an enlarged EU.

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NOTES

1. Parts of this article draw on an EPRC research project and report on the European added value of Cohesion policy (see Bachtler et al., 2007).
2. The model analyses three types of expenditure: on physical infrastructure, human capital and support to enterprises. In the short term, such outlays tend to stimulate demand which, in Keynesian theory, will lead to the emergence of multiplier effects. In the medium and long run, such outlays should generate supply effects owing to increased effectiveness of the production factors, and will also foster the inflow of exogenous capital, attracted by better conditions for business. The intensity of such processes is determined by elasticities, ‘inserted’ into the model on the basis of external evaluation.

3. The notion of territorial cohesion only recently added joined economic and social cohesion in the official EU language, and has not as yet been approved in treaty form.

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**John Bachtler**, European Policies Research Centre, University of Strathclyde, 40 George Street, Glasgow G1 1QE, UK. E-mail: john.bachtler@strath.ac.uk

**Grzegorz Gorzelak**, European Policies Research Centre, University of Strathclyde, 40 George Street, Glasgow G1 1QE, UK. E-mail: gorzelak@post.pl