IMPROVING ECONOMIC POLICY

Effectiveness of cohesion policy: Learning from the project characteristics that produce the best results

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Outline

1. Rationales for EU cohesion policy
2. Literature on EU cohesion policy
3. Our novel empirical methodology and results
4. Insights from interviews
5. Implications for cohesion policy reform

EU cohesion policy has rationales

- A treaty-based objective is to strengthen regional cohesion
- It has various social, political and economic rationales
- Market integration generates agglomeration effects and attracts people to advanced regions: cohesion payments should help ‘losers’ to create conditions for increased returns to investment

Literature on cohesion policy is inconclusive

- Some papers find positive long-term impacts, others find positive but only short-term impacts, others find no impact at all or even negative impacts

- Major factors complicating empirical assessments: complex local environments, the diversity of policy interventions beyond cohesion policy, varying time frames, cross-regional spill-over effects, lack of appropriate data for the analysis, certain important factors are not measurable, various econometric problems

We use a novel empirical methodology

- Two steps:
  1. We estimate ‘unexplained economic growth’ by controlling for the influence of various region-specific factors (but not cohesion policy)
  2. We analyse the relationship of ‘unexplained economic growth’ with about two-dozen project-specific characteristics
- First step statistically significant control variables:
  - the initial level of GDP per capita in 2003,
  - the capital income ratio in 2003,
  - the percentage of employment in the tertiary sector in 2003,
  - the growth in population between 2000 and 2003,
  - population density in 2003,
  - quality of governance in 2010,
  - the percentage from 25-64 year olds with tertiary education in 2003,
  - R&D personnel in percentage of total employment in 2003, and
  - the growth of tertiary sector employment in 2003-2015.

Two caveats

1. **GDP growth is not the sole indicator of a project's success**. Several projects aim to preserve the environment, foster urban development or promote social inclusion.

   Yet reducing economic disparities between regions is the goal set by the Treaty and most cohesion funding is spent on less-developed regions.

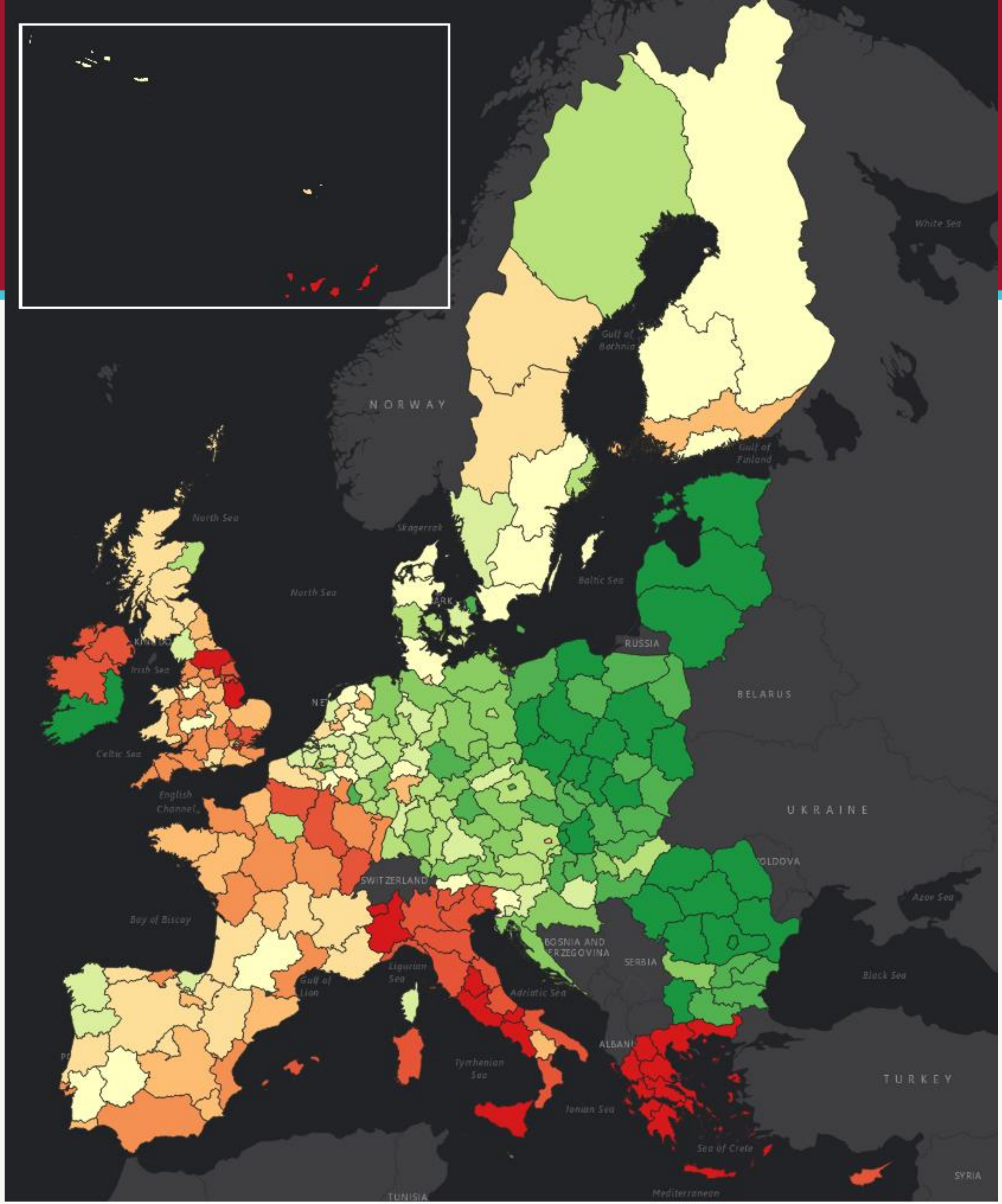
2. **We cannot claim causality**, i.e. that certain cohesion project characteristics explain this extra growth.

   Yet we uncover interesting patterns differentiating best and worst-performing regions.

   The literature claiming causality suffers from major problems.

Actual economic growth

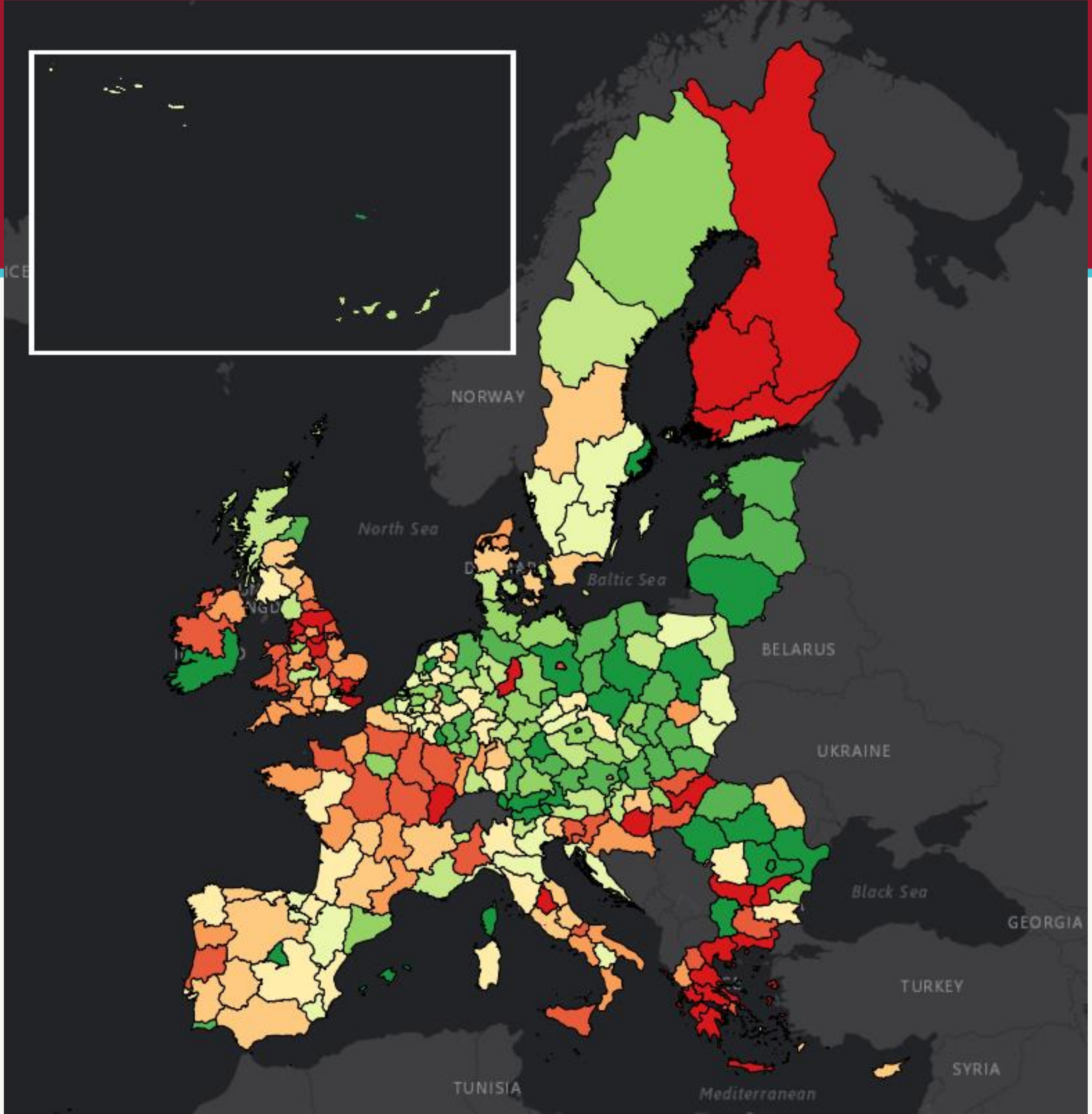
Classification of EU NUTS-2 regions according to per capita growth in 2003-2015 without controlling for anything



Regions in dark green: fastest actual economic growth
Regions in dark red: slowest

Unexplained economic growth

Classification of EU NUTS-2 regions according to per capita growth in 2003-2015 when controlling for various initial conditions



Regions in dark green: fastest unexplained economic growth
Regions in dark red: slowest

We conducted two types of analysis

- Two types of analysis:
  1. A correlation analysis across the whole EU
  2. A quartile analysis by country, in which we contrasted only the best and worst performers within each country, and then averaged the differences across the EU

- Rationales:
  1. Highlight patterns systematic over all regions of the EU
  2. Control for country-specific characteristics & focus only on the best and the worst performers

Two data sources for project characteristics

1. ‘4P dataset’: European Commission Regional Policy website, where up to four projects per NUTS-2 region are listed. There are 606 unique projects, which together account for 3.2% of the total ESIF budget in 2007-2013.

2. ‘interregional dataset’: provided by the Interact Programme, includes 94 percent of the total number of interregional projects under the ERDF in 2007-2013.

Key empirical findings 1

The best performing regions have on average projects with:

- longer durations,
- a greater concentration of priorities,
- more inter-regional focus,
- a higher proportion of non-research NGOs or academic or private sector entities among the beneficiary entities (as opposed to public sector beneficiaries),
- a higher percentage of the budget devoted to innovation;
- a higher total funding (and per capita) from the Cohesion Fund.

Key empirical findings 2

The worst performing regions have on average projects with:

- a higher share of national co-financing,
- national (as opposed to regional and local) management,
- a higher proportion of public-sector entities among the beneficiary entities,
- a higher total funding (and per capita) from ESF and ERDF and EAFRD,
- a higher share of social inclusion,
- a higher share of education and training,
- a higher share of urban development (though we note that the role of different sectors is less robust).

Insights from interview 1.

- Cohesion policy is assessed to be the most evaluated of all EU policies, and to bring European value added.
- In some countries, local stakeholders have different attitudes to cohesion and national funds.
- The Performance Framework is found to bring an additional layer of administrative burden without a clear connection to results and the quality of the intervention.
- Beyond the crucial role of administrative capacity and institutional quality, there are no clear-cut characteristics that contribute to the success of cohesion programmes.

Insights from interview 2.

- Various suggestions were made on how to improve cohesion policy in the next 2021-27 MFF, including:
  - a stronger focus on addressing the underlying problems instead of focusing on spending the money quickly,
  - more strategic planning,
  - simplification,
  - stricter control when the corruption risk is high,
  - synergies with other EU and national programmes,
  - more cross-region and cross-border projects, and
  - a stronger focus on fewer European goals in the case of more-developed regions, while in less-developed regions the focus should not be so much on innovation.

12 implications for cohesion policy reform

1. The overall allocation of EU resources to cohesion policy and other priorities is a political issue and thereby we do not make a recommendation, though we note that continued convergence reduces the need for cohesion funding.

2. Within the cohesion envelope, we found growth-enhancing effects only for the Cohesion Fund, and its proposed drastic reduction should thus be assessed on the basis of a clarification of the importance of economic convergence and other goals, such as social inclusion and the protection of the environment.

12 implications for cohesion policy reform

3. Should more developed regions continue to receive cohesion funding? This issue is ultimately political. These regions receive very little (0.07% of GDP) and national budgets could easily compensate. Arguments in favour of continued EU support:
   - To give every region at least a little bit
   - Foster pan-European goals
   - Foster cross-border cooperation

12 implications for cohesion policy reform

4. Results orientation should be a major aim of the reform.

5. Simplification is also important, but when corruption risk is high, stricter control is needed.

6. Interregional projects should be further encouraged.

7. Thematic concentration along with fewer EU goals is well justified in more-developed regions, but not in less-developed regions.

12 implications for cohesion policy reform

8. Irrespective of the degree of thematic concentration, individual projects should be focused and have longer durations, in line with long-term strategic planning.

9. Such an approach does not necessitate a high level of flexibility of cohesion policy.

12 implications for cohesion policy reform

10. While the proposed increase in national co-financing could boost ownership, it might lead to lower growth according to our calculations. We therefore welcome the InvestEU initiative, via which a single project can raise financing from financial instruments, grants and private and public funds, thereby tackling financing constraints.

12 implications for cohesion policy reform

11. A strengthened link with the European Semester should be avoided.

12. Increased transparency over data and indicators about the design and implementation of projects would be important.

Thank you for your attention