Policy Contribution
Issue n˚8 | May 2019

How to improve European Union cohesion policy for the next decade

Zsolt Darvas, Jan Mazza and Catarina Midoes

ZSOLT DARVAS (zsolt.darvas@bruegel.org) is a Senior Fellow at Bruegel and at Corvinus University of Budapest

JAN MAZZA (jan.mazza@bruegel.org) is a Research Assistant at Bruegel

CATARINA MIDOES (catarina.midoes@bruegel.org) is a Research Assistant at Bruegel

This Policy Contribution is based on an original study done by the authors (along with Antoine Mathieu Collin) on behalf of the European Parliament's Committee on Budgetary Control (CONT). The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament.

Executive summary

THE ACADEMIC LITERATURE on the effectiveness of the European Union's cohesion policy is inconclusive: some studies find positive long-term impacts, others find positive but only short-term impacts, while others find no or even negative impacts. This range of results arises from major complicating factors, related to complex local environments, the diversity of policy interventions beyond cohesion policy, varying time frames, cross-regional spillover effects, lack of appropriate data for the analysis and various econometric problems and related estimation biases.

WE ADOPTED A novel methodology that first estimated 'unexplained economic growth' by controlling for the influence of various region-specific factors, and then analysed its relationship with about two dozen characteristics specific to projects carried out in various regions in the context of EU cohesion policy. We found that the best-performing regions have on average projects with longer durations, fewer priorities, more inter-regional focus, lower national co-financing, more national (as opposed to regional and local) management, a higher proportion of private or non-profit participants among the beneficiaries (as opposed to public-sector beneficiaries) and a higher level of funding from the Cohesion Fund. No clear patterns emerged concerning the sector of intervention.

INTERVIEWS WITH STAKEHOLDERS suggested that cohesion policy is the most evaluated of all EU policies and generates European value added. In some countries, local stakeholders have different attitudes towards cohesion and national funds, which sometimes leads to less-careful management of EU funds. The Performance Framework is seen as creating an additional layer of administrative burden, without a clear connection to results or the quality of interventions. Beyond the crucial role of administrative capacity and institutional quality, there are no clear-cut characteristics that contribute to the success of cohesion programmes.

COHESION POLICY REFORM should focus on addressing the underlying problems, involving more strategic planning, fostering simplification but with stricter controls when the corruption risk is high, increasing the interregional focus and exploring synergies with other EU and national programmes. Focused and longer-term strategic programmes do not require high levels of flexibility. The national co-financing rate should be set on the basis of fiscal constraints, the additionality principle and corruption risk. The importance of a locally-led perspective should be reconciled with our finding that centralised management works better. Thematic concentration along with fewer EU goals is well justified for more-developed regions, but not for less-developed regions. A strengthened link with the European Semester should be avoided. Transparency over data, design and implementation of projects should be increased.

bruegel

1 Introduction

A key objective of the European Union is to strengthen regional cohesion by addressing development disparities, particularly by targeting less-favoured regions. There are various social, political and economic reasons for an EU-wide cohesion (or regional) policy. Equality is an important social concept; a socially more cohesive union can also be politically more cohesive. Of similar importance, the EU's southern and eastern enlargements could be seen as a political bargain in which the newer, less-developed member states opened up their markets to the goods, services and investment provided by companies established in older, more-developed member states. In return, the earlier members accepted labour migration from these less-developed countries and directed financial transfers to them in the form of cohesion policy, to support their transformation and convergence.

In addition, there is an economic rationale for cohesion policy because when economic activities concentrate in technologically-advanced regions that also attract people, from within countries and from other countries, certain regions could lose out. Cohesion payments should not be regarded as compensation for losers, but as a means to create the conditions for increased returns to investment through the provision of, for example, infrastructure, information technology and research and development, thus helping adversely-affected regions to prosper and retain (or even attract) people. Cohesion policy is also a tool to foster the achievement of EU priorities, such as inclusive, smart, green and sustainable development.

The EU has allocated about €367 billion, 34 percent of its total budget, to cohesion policy objectives in the 2014-2020 Multiannual Financial Framework (MFF). The European Commission's May 2018 proposal for the 2021-2027 MFF would allocate 30 percent of the total budget to cohesion[1]. The 2014-2020 cohesion funds are split between the European Regional Development Fund (ERDF, 55 percent), the European Social Fund (ESF, 23 percent), the Cohesion Fund (CF, 20 percent) and the Youth Employment initiative (1 percent). These funds co-finance (along with national financing) economic development programmes drawn up by different regions. Programmes must demonstrate how they contribute to a broad range of objectives, from research and development activities in small and medium-sized enterprises, to public administration and social inclusion. The European Agricultural Fund for Rural Development (EAFRD) is part of the Common Agricultural Policy (CAP), but since the EAFRD has a regional focus, we also considered this fund in our analysis.

There is no consensus on the impact of cohesion policy in the academic literature. The results of empirical analyses have been mixed, suggesting that cohesion funds can generate significant growth, but do not always fulfil this potential.

This Policy Contribution assesses the factors that contribute to the effectiveness of cohesion policy and, based on this, makes suggestions of how to reform it. To do this, we provide novel insights on the characteristics of cohesion policy projects that contribute to successful outcomes (sections 3 and 4). We also outline findings about cohesion policy that came out of a series of interviews with officials involved in implementing it (section 5). There are so many core issues that are hard to measure and therefore cannot be included in the econometric work; on these issues the interviews provided valuable insights. We bring together the quantitative and qualitative parts of our analysis in our conclusions (section 6).

1 The European Commission's May 2018 proposal, plus the follow-up proposals and press releases published by time of writing, are available at https://ec.europa.eu/commission/future-europe/eu-budget-future_en.

2 What does the literature say about the effects of cohesion policy?

There is extensive literature on cohesion policy. We have identified more than 1,000 papers dealing with various aspects of effectiveness, convergence, inequality, governance and many other issues. In addition to our own review of a couple of dozen works[2], we also drew on earlier literature surveys by Hagen and Mohl (2009), Marzinotto (2012), Pienkowski and Berkowitz (2015) and Crescenzi and Giua (2017). From these reviews, mixed results emerge in terms of the effectiveness of cohesion policy. Some studies show varied results for different countries and regions – either long-term positive impacts or short-term impacts which reverse when the inflow of funds stops. Moreover, some studies found no significant impact on regional growth, or even a negative impact.

Such range of results is generally attributed to different methodologies, variables, datasets used in the regressions and different time periods covered by the analyses. But there are more fundamental problems too.

The extensive literature on cohesion policy reported mixed results: some studies show varied results for different countries and regions, while others found no significant impact on regional growth, or even a negative impact.

Cohesion policy works in very different local economic and social contexts. It operates in an environment subject to a multiplicity of measures and multiplicity of national, regional and local rules and systems. The separation of the impact of EU spending from the impact of national spending presents an additional difficulty. Projects have varying time frames, and several projects are ongoing at the same time, also making it more difficult to identify the impacts. Spillovers across regions add further complications. For example, EU spending in one particular region can have positive impacts on neighbouring regions, because of their close economic ties.

Approaches used to estimate the impact of cohesion policy suffer from various drawbacks: macroeconomic model simulations can only reflect the assumptions they are based on (for example, if it is assumed cohesion policy boosts physical capital, human capital and productivity, and it is assumed increases in these boost growth, it is easy to conclude that cohesion spending is good for growth); studies reliant on counterfactual scenarios find it extremely difficult to establish reasonable counterfactual scenarios; and empirical estimates suffer from various data and econometric estimation problems[3], and from biases[4].

A further econometric problem is that it is not clear which specification to use and which functional form is appropriate. Since cohesion policy could impact outcomes with a time lag, the specification of dynamic impacts creates further complications.

In their seminal work, Bachtler *et al* (2013, nicely summarised by Bachtler *et al*, 2017), did not aim to establish a causal link between cohesion policy and economic growth, but aimed to answer the questions: (1) whether the programmes implemented by the regions achieved

2 See Annex 1 of Darvas *et al* (2019).

3 For example, the impact of cohesion policy is influenced by various institutional and structural regional factors (including degree of decentralisation, the presence of national supportive institutions, trust, openness, lack of corrupt practices, geographical position and initial conditions), political economic factors (including whether the country is federal or decentralised, the political situation within the country and the region, and relationships between various layers of governance), and the interaction between cohesion policy and other (EU and national) policies. However, for many of these factors, proper variables are not available.

4 Such as the so-called simultaneity (or endogeneity) bias, which occurs when one or more explanatory variables (for example, cohesion spending and investments) are endogenously determined with the explained variable (for example, economic growth) and the endogeneity is not properly dealt with, which is a very difficult task. Hagen and Mohl (2009) suggested four reasons why this could be the case: (1) reverse causality, since the EU's cohesion policy conditionality is likely to be linked to the growth rate of the region that benefits from the cohesion funding; (2) there can be unobserved or omitted variables such as a spill-over effect where a neighbouring region can be affected by cohesion policy funding; (3) Nickell bias, which occurs when a fixed-effects econometric model is applied to a dynamic setup; (4) measurement errors, because while cohesion funding data is available at regional level, many observed variables are only available at national level or are not available at all.

what they were designed to do; and (2) whether what they achieved dealt with the needs of the regions (as identified at the start of the process). Their methodology was based on cases studies. Their main conclusion was that cohesion policy suffered from a lack of conceptual thinking and strategic justification for programmes. Objectives were neither specific nor measurable. There were various deficiencies in most areas of management. They argued that there have been some improvements in these areas, but progress in addressing these problems has been slow and inconsistent, and some regions experienced a deterioration of implementation quality during the 2007-2013 period.

Therefore, because of the general and method-specific problems as well as the more qualitative conclusions of Bachtler *et al* (2013, 2017), it is not possible to draw an overall conclusion from the large literature, beyond perhaps some plausible issues, such as the importance of good governance, geographical characteristics, initial endowments of the region, or the economic structure of regions. We therefore do not use any existing methodology from the literature, but use a novel methodology, while controlling for various region-specific factors.

3 Our empirical approach

We identified the EU regions with the best and the worst GDP growth performance conditional on a wide range of regional factors, and then studied if various cohesion project characteristics differed between the best and the worst performers.

Of course, 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, and might not lead to an immediate uptick in economic growth. However, a major aim of cohesion policy is to foster convergence, and "*In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions*"[5]. Also, most cohesion funding is spent on less-developed regions, presumably with the overarching goal of fostering their development. Therefore, while economic convergence is far from being the only objective, is remains the most important objective of cohesion policy.

Because of the difficulties in identifying the causal impact of cohesion policy, our econometric model is <u>not</u> designed to measure the impact of cohesion policy *per se*, but to sort regions according to their growth performances. Good growth performance might, or might not, be related to cohesion policy and there could also be several indirect channels. For example, cohesion policy can improve infrastructure, which, in combination with state aid from the government of the country, attracts foreign direct investment, ultimately leading to faster growth, higher employment and increases in GDP per capita.

In order to classify the best and worst performing regions, we ran regressions of the growth rate of GDP per capita at PPS (purchasing power standards) between 2003 and 2015 on a number of fundamentals, which, according to classic economic theory, should explain the different growth paths[6]. We found a significant influence of the initial level of GDP PPS 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 share of working age people 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. It is reassuring that these variables, which have a theoretical

5 Article 174 of the Treaty on the Functioning of the European Union.

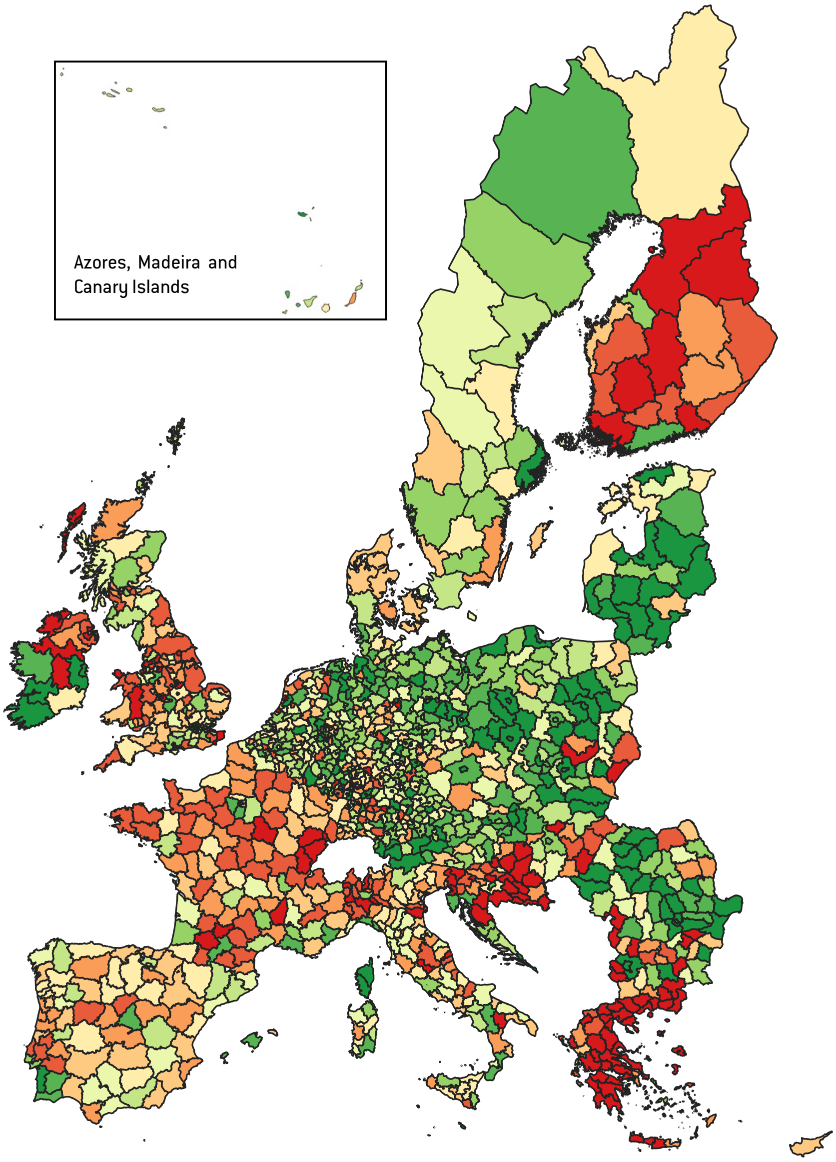
6 A detailed analysis of the regressions is provided in Darvas *et al* (2019), along with the reasons why the various variables were considered and the data sources.

rationale, are found to have a statistically significant influence on economic developments[7].

The residuals of our regression corresponded to the part of economic growth left unexplained by the variables we included, which we call 'unexplained economic growth', and which might be related to cohesion policy. Figure 1 shows NUTS-3 regions[8] in the EU according to their degree of unexplained economic growth.

The top 10% of regions in terms of unexplained economic growth comes from 21 countries, highlighting that there are rather successful regions in many EU countries.

Figure 1: Unexplained economic growth, 2003-2015



Source: Bruegel. Note: Map based on deciles of the residuals of our conditional convergence model. Regions in dark green had the fastest unexplained economic growth, while regions in dark red the slowest.

7 Other variables, which were tested, but were not significant, included business demographics, health indicators, and a dummy for whether a region is rural.

8 The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU. It has three levels: NUTS-1: major socio-economic regions; NUTS-2: basic regions for the application of regional policies; NUTS-3: small regions for specific diagnoses. Regions eligible for support from cohesion policy have been defined at NUTS-2 level. There are occasional changes to this classification. The current classification lists 104 regions at NUTS-1, 281 regions at NUTS-2 and 1348 regions at NUTS-3 level. See: https://ec.europa.eu/eurostat/web/nuts/background.

We considered 1337 NUTS-3 regions. Of these, the top 133 regions comes from 21 countries, highlighting that there are rather successful regions, in terms of unexplained economic growth, in many EU countries. The unlucky group of 133 worst regions is from 14 countries, suggesting more concentration. In particular, 36 of the 52 Greek regions are in the bottom decile, 8 in the second worst decile and 4 in the third worst decile, highlighting that Greece as a country suffered massively after 2008. Because of the special Greek economic and social collapse after 2008, we excluded Greece from our subsequent analysis.

4 Learning from the project characteristics that could produce the best results

We compared our estimates of regions' unexplained economic growth with the characteristics of their cohesion policy projects, in an attempt to uncover interesting patterns, though we cannot claim causality, ie that certain cohesion project characteristics explain this extra growth. Other factors might be more important for growth development, for example, on the positive side, that the government attracted significant foreign direct investment, which boosted production and average productivity in the region; or on the negative side, that there was a major natural disaster. Nevertheless, it is instructive to analyse the best and worst performing regions in terms of the different characteristics of cohesion policy projects. We also discuss certain factors that could explain the associations we found.

Box 1: Cohesion project data

The publicly available data on cohesion programme and project characteristics includes data on payments by EU fund, project summary characteristics (such as duration, co-financing rate, indicators related to interregional projects), project beneficiaries (allowing us to obtain the number of beneficiaries per project and the proportion of academic, NGO, private and public beneficiaries), managing authorities (allowing us to obtain the number of managing authorities per project and the proportion of central, regional and local governments) and the sectoral breakdown of intervention. We used three data sources:

Payments by fund to each region are available via the DG REGIO data-for-research platform (https://ec.europa.eu/regional_policy/en/policy/evaluations/data-for-research/) under the name 'Historic EU payments – regionalised and modelled', which is available at the NUTS-2 level only.

On project characteristics, one data source, which we designate the '4P dataset', comes from the European Commission Regional Policy website (https://ec.europa.eu/regional_policy/en/atlas/), where up to four projects per NUTS-2 region are listed and explained in detail. These same projects can be found by accessing https://cohesiondata.ec.europa.eu/projects, where it states "*This is a list of representative projects funded by ESIF. It is not an exhaustive list of all projects*"[9]. We have to presume that the sample is indeed representative of projects, even though it is not representative of the funds: of the 606 projects listed, 504 were funded by the European Regional Development Fund (ERDF), 51 by the Cohesion Fund, 11 by the European Social Fund (ESF), and two by the pre-accession instrument, while the fund is not indicated

9 ESIF = European Structural and Investment Funds, which include ERDF, ESF, CF and the European Maritime and Fisheries Fund (EMFF).

for 38 projects[10]. The 606 projects refer to the 2007-2013 Multiannual Financial Framework (MFF) period and their combined budget amounted to 3.2 percent of the total ESIF budget in 2007-2013. We found the number of 606 projects too low number and call for greater transparency: much more information about cohesion projects should be made publicly available.

The other dataset on project characteristics, which we designate as the 'interregional dataset' (https://www.keep.eu/), contains projects from interregional programmes funded by the ERDF at the NUTS-3 level. These include cross-regional initiatives (within a country) and international initiatives. We focused on data from the 2007-2013 period, for which the database includes 10,089 projects in total, corresponding to 94 percent of the total number of interregional projects under the ERDF in this programming period – thus its coverage is almost complete. In light of this extensive coverage of ERDF-funded interregional projects, it is even more puzzling that the 4P dataset incudes such a small number of projects.

The 4P and the interregional datasets relate to different sets of projects. The interregional dataset covers only projects that involved interregional cooperation and that were ERDF-funded, while the 4P dataset covers projects from all ESIF funds (even though it is dominated by the ERDF, as we noted above), and these projects can be of any type, either region-specific or interregional. Thus, findings might not necessarily point in the same direction, yet it is interesting to note that our results based on the two datasets are rather consistent.

We drew the following key conclusions from our empirical research.

Fund: Only the funding received by a region under the Cohesion Fund is statistically significant when considering the association with a region's unexplained economic growth. A possible explanation for the lack of statistically significant correlation for the other three funds (ERDF, ESF, EAFRD) could be their more diverse goals, including a greater focus on environmental protection, social inclusion or urban development, which might not immediately lead to faster economic growth.

A longer duration of projects and a greater concentration of programme priorities are clearly associated with better economic performance, suggesting that more strategic projects could bring benefits.

Interregional projects: The total number of interregional projects and an estimate of how much budget goes into a region correlate positively with the region's unexplained economic growth. We find that it is the participation in inter-regional projects, but not their leadership, that matters: the three indicators related to leadership of interregional projects are not statistically significantly correlated with unexplained economic growth. Interregional projects might foster the cooperation and knowledge exchange between various regions, which might explain their positive contribution.

Duration: Duration is strongly positively associated with unexplained economic growth, potentially hinting at the positive effects of taking a longer-term view of investments.

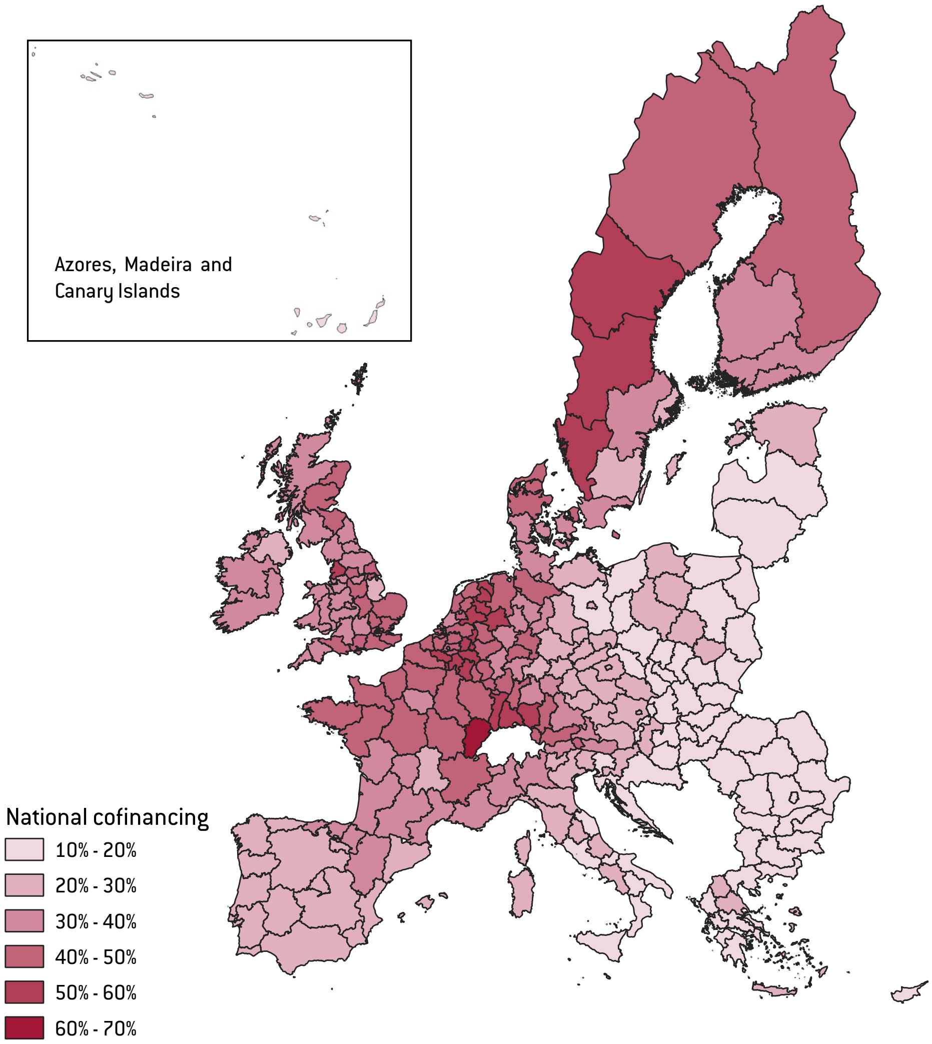
Concentration of priorities: A greater concentration of programme priorities is clearly associated with better economic performance. This result, along with the result for longer duration projects, suggests that more strategic projects could bring benefits.

National co-financing: One of our most robust results is the negative association between the national co-financing rate and unexplained economic growth. That is, regions with higher national co-financing rates tend to grow less. This finding might be explained by the availability of funding: when the national co-financing rate is low, national authorities might have more resources to spend on other projects, which might stimulate growth. Looking into the national co-financing rate, we see that countries such as Romania and Poland (well represented among the best performers) have quite low average co-financing rates, but so do southern Italian regions (at least for inter-regional projects) and several Hungarian regions,

10 While there are 606 unique projects in this dataset, many of them are interregional and thereby altogether there are 896 project+region pairs. In our analysis we consider an interregional project for each region it targets.

which are among the worst performers (Figure 2)[11]. A key question is whether these results have been driven by the global and European financial and economic crises that intensified after the collapse of Lehman Brothers in September 2008, when several countries faced major public-finance constraints. We return to this issue in our concluding section (section 6).

Figure 2: Average national co-financing rate of inter-regional projects, 2007-2013



Source: Bruegel based on the interregional dataset. Note: darker colours indicate higher national co-financing rates. For example, the darkest red colour indicates regions where the national co-financing rate is between 60-70 percent.

Project management: One of the strongest positive associations is between unexplained economic growth and proportion of projects managed at national level (as opposed to regional and local levels). This might be because of relatively weak local institutions in countries with more room for convergence (eg eastern countries), where central ministries possibly are better at absorbing and managing EU funds. At the same time, national entities might be more able to identify and prioritise projects with the greatest potential.

Beneficiaries: Regions with a higher proportion of projects whose primary beneficiary is a private company also perform better. This might be because projects targeting companies

11 Low national co-financing rates are also partly explained by the period in question, 2007-2013. During the financial crisis, national co-financing rates were reduced, especially for the most-affected countries.

are more return-driven and can unlock economic growth, but it might simply be a sign of regions with more positive growth prospects – where more companies exist and thus apply for funds[12]. Regions with a higher proportion of projects whose primary beneficiary is a non-research NGO also perform better, potentially suggesting that such beneficiaries might be able to mobilise local participants. It is important to highlight that the share of public-sector beneficiaries is either not associated with better growth outcomes (in one of our calculations), or is even negatively associated (in our second calculation).

Sector of intervention: In terms of the association of sectors with unexplained economic growth, no clear patterns emerge and the results are conflicting when using the two alternative datasets for project characteristics. These findings suggest that the sector of intervention is probably less relevant for economic growth, supporting the idea that whether a project in a certain industry is a worthy investment for a region depends more on regional factors than on the sector itself.

5 Insights from interviews

To shed light on various aspects of cohesion policy design, implementation, effectiveness and desirable reforms that we cannot analyse by using data, either because of data unavailability or of their qualitative nature, we interviewed a number of key stakeholders from the European Commission, national authorities and independent experts (see the Annex for details of our interviewees).

A summary of these interviews can be structured in eight parts.

5.1 Evaluation

Investment in cohesion and convergence of rules and standards go hand in hand – both help to improve the functioning of the single market

Most interviewees emphasised that cohesion policy is the most evaluated of all EU policies; it is subject to scrutiny by various European institutions, national assessments, independent evaluations and a vast academic literature. The policy is also constantly improved to reflect the conclusions of evaluations. Some national and independent interviewees pointed out that the European Common Agricultural Policy (CAP) is subject to significantly less evaluation, as is the European Fund for Strategic Investments (EFSI – the so-called Juncker plan), for which an increase is planned in the next MFF, based mostly on the success of money spent, not on a thorough analysis of its usefulness.

5.2 European value added

Most interviewees underlined the positive EU value added of cohesion policy, even though some independent experts made very critical remarks. Especially in countries dominated by less-developed regions, cohesion policy is thought to be a major driver of economic and social development and an important instrument in the fight against climate change. Without EU support, some projects would not have happened or would have been postponed, thus harming economic convergence, the environment or groups such as disabled people seeking to return to the labour market.

Views were more mixed about the usefulness for more-developed regions, though interviewees from countries dominated by such regions underlined various forms of value added for their own regions. In particular, the benefits of cross-regional projects involving more than one country were emphasised, as was focusing attention on EU goals, which would receive less attention in the absence of EU funding. However, some interviewees said that the amount of

12 In our models of unexplained economic growth, we controlled for business demographics (such as birth and death rates of businesses, the population of active enterprises, and employees in the population of active enterprises) and found it not to be a significant factor.

money received by richer regions is small; countries with richer regions would be able to provide that money easily from national budgets.

At a more general level, the link between cohesion policy and the EU's single market was also emphasised. Investment in cohesion and convergence of rules and standards go hand in hand – both help to improve the functioning of the single market. Another important element of European added value is the contribution to EU priorities, such as smart, social and green goals.

Member states that faced financing pressures during the global and European financial and economic crises, which intensified after 2008, were particularly appreciative of the reduced national co-financing rates.

5.3 Different attitudes to EU and national funds

EU money is sometimes viewed differently to national money by public authorities and by private beneficiaries, and is not always spent with equal care.

Some independent experts said EU money is viewed differently to national money by public authorities and by private beneficiaries, and is not always spent with equal care. One expert noted that since direct transfers to farmers under the CAP are widely viewed as a wasteful use of EU money, this sometimes encourages a reckless use of other EU funds, including cohesion funds.

The view was also expressed by experts knowledgeable about high corruption-risk countries that the likelihood of artificially high pricing is greater with EU-funded programmes than with nationally funded programmes. In such cases, an increase in national co-financing (at least to one half) would be welcome and there should be very strict analysis of whether prices correspond to market prices. A high level of concentration of public procurement winners should be avoided.

In relation to private beneficiaries, a distortion could emerge if obtaining EU funds becomes a central element of business plans.

Another view, expressed by a national expert from a country with a very prudent finance ministry, is that there is a strict division between EU funds and national annual budgets, which are detached from each other.

5.4 The Performance Framework

Most national and independent interviewees were very critical of the Performance Framework, which is programme-specific tool, agreed by the Commission and the relevant national/regional decision-makers in charge of spending the money, used to define the goals and the relevant indicators of programmes[13]. While most interviewees acknowledged its good intentions – focusing attention on strategic tasks, enhancing result orientation and fostering the delivery of projects on time – major criticisms were raised.

Objectives and targets have to be justified by national authorities and it was highlighted that documents providing justifications had significantly variable quality and were not comparable across proposals. The methodologies for the preparation of such documents have not been discussed and compared. Even though there was informal and formal coordination between managing authorities and the European Commission, in a number of cases the Commission had little basis to argue with member states. While, according to Annex II to Regulation (EU) No 1303/2013, milestones and targets shall be realistic and achievable, some interviewees noted that targets were set at low levels to help easy achievement. One of the interviewees noted that "*everyone was able to adapt to the Performance Framework*". Since the performance review assessing the achievements of the milestones is expected to be released in mid-2019, it will be interesting to see the share of the programmes and priorities that have achieved their milestones.

The content of several indicators – output and financial indicators – is not directly related to performance and results. For instance, counting the length of roads built is more like

13 See Darvas *et al* (2019) for a detailed introduction to the Performance Framework, including four examples from different countries and sectors. Gramillano *et al* (2018) comprehensively reviewed the indicators and made recommendations for the post-2020 period.

counting the money spent and is an indicator of implementation, but does not guarantee that the ultimate goals for which the road was proposed in the first place have been achieved. Constructing new school buildings and then counting their number is easy, but this might not solve the educational problems of a region, if, for example, the main problem is the lack of qualified teachers.

Several interviewees noted that the number of indicators is excessive and plays too strong a role in the process without giving a clear picture of the whole policy. It is essential to assess and evaluate cohesion projects, but different methods are needed and the use of indicators is just one of them.

Implementation of the performance framework was generally found to create an extra layer of rules on top of existing rules in order to speed up spending. However, it has not transformed the earlier compliance-based logic (which involves all checks, audits, management verification) to a results-orientated approach as was its aim. Most people just produce indicators as a last exercise. It was noted that the existing 'N+2 or N+3' rule[14] already created pressure to spend the money. It was therefore not helpful to put 6 percent of the operational programme funding into the programme performance reserve, with this reserve allocated away from priorities that have not achieved their milestones[15]. This has created additional pressure to spend the money without due consideration for the quality of the spending. Instead, it was recommended that the Performance Framework should control the quality of investment, with attention focused on addressing the real underlying problems rather than on the speed of spending. The plan to replace the performance reserve approach with a reprogramming approach in the 2021-2027 MFF, as included in the European Commission's May 2018 proposal, might indicate that the Commission itself realised there were some problems with the performance reserve approach.

However, some interviewees noted that there has to be a certain amount of pressure on national authorities, otherwise implementation could be severely delayed. Because of shared management and partnership agreements (which most interviewees found very useful), implementation of cohesion projects crucially depends on national authorities and European institutions can do little to speed up the process.

5.5 Factors determining the success of cohesion policy

With the exception of a few common factors, such as the importance of high-level administrative capacity and institutional quality, interviewees listed rather diverse factors that might contribute to success. Additionally, several interviewees emphasised that regions, programmes and projects differ so much that it is not possible to provide a clear list of success factors. Research points in numerous directions and there are both very successful and unsuccessful projects across sectors, financing arrangements, etc.

The only unanimous view was to underline the importance of institutional quality and highly efficient administrative capacity. The interaction between local, regional and national authorities was also found to be important. In this regard, some interviewees noted that it takes managing authorities, and also beneficiaries, a long time to develop the skills needed to

14 Member states' cohesion policy allocations are divided into annual amounts which must be spent within two or three years, depending on the country. This rule is known as the N+2 or N+3 rule, with N being the start year when the money is allocated. Any of that annual amount not claimed by the member state within that period is automatically deducted from their allocation and goes back into the overall EU budget. See http://europa.eu/rapid/press-release_IP-13-446_en.htm.

15 The European Commission (DG REGIO) is carrying out a performance review at the time of writing. Publication of the results is expected in mid-2019. Where milestones (which were set in the programme-specific Performance Framework) have not been achieved, the member state in question shall propose reallocation of the corresponding amount of the performance reserve to priorities set out in the Commission decision, which will be based on the performance review. In case of a serious failure in achieving a priority's milestones relating to the financial and output indicators and key implementation steps set out in the Performance Framework, the Commission can suspend all or part of an interim payment to a programme priority.

effectively design and manage programmes and projects. Technical assistance is thus vital in regions characterised by weaker institutional quality.

Low implementation rates partly result from low levels of administrative capacity of the experts involved in implementation. In some countries, the main bottlenecks leading to long delays are public procurement and state aid policies.

It was also noted that while EU regulations are burdensome, in some countries national implementation of EU regulations can be too strict and involves extra administrative requirements, hindering effective project implementation.

On the use of grants versus financial instruments, most interviewees emphasised that their usefulness depends on scheme, sector and other circumstances. There are good and bad practices with both. One interviewee said that financial instruments work very well for supporting small and medium size enterprises (SMEs), but were less useful for urban projects, because projects should be profitable for the use of financial instruments, which was the case with SME projects, but was more difficult with urban projects.

Some interviewees emphasised the importance of strategic thinking for success. Another issue raised was whether EU programmes are embodied into national policies, or rather implemented as a separate policy. Others emphasised that success is linked to the broader environment of government intervention.

There were no clear views about whether the sector of intervention matters, though one interviewee highlighted that investment in infrastructure is easier and leads to more tangible results than investment in people, research and institutions.

There was no clear view about private-sector involvement, though a few interviewees took the view that private-sector involvement increases the probability of project success.

The level of development might matter for certain type of programmes. For example, less developed and transition regions face difficulties in absorbing EU funds in sectors such as R&D, innovation, ICT or the low-carbon economy. This is mainly because of their economic and productive structure as lagging regions; they tend to have weaker innovation systems and less-developed business sectors.

It was also noted that thematic concentration has imposed uniform sectoral priorities on the regions, without taking into account their real development needs. Therefore, this can undermine the effectiveness of EU funds.

Many experts considered national co-financing of EU-funded projects irrelevant for the eventual success of projects, though some of these experts highlighted that more national co-financing can lead to higher ownership of the programmes, which might help. However, the national co-financing rate might influence the pace of implementation, as public administrations might face budgetary constraints (to meet deficit objectives) and thereby higher national co-financing in fiscally-constrained countries could slow down implementation.

5.6 Thematic areas

It was widely emphasised that problems differ from member state to member state and from region to region. Therefore, a uniform requirement for the use of EU funds, such as the overwhelming role of innovation, would not serve the interests of all regions. Some interviewees, who had deeper knowledge of less-developed regions, emphasised the key strategic importance of education, healthcare systems, energy modernisation and transport infrastructure (eg lower-level road and rail modernisation). Some interviewees noted that such basic problems hardly enter the country-specific recommendations of the European Semester; therefore, linking EU funds to European Semester recommendations would be unwise.

On the other hand, some representatives of more-developed regions emphasised the overriding importance of innovation, which was less prominently mentioned by representatives of member states dominated by less-developed regions.

5.7 Synergies with other EU and national policies having a regional character

It was expressed that the use of cohesion/regional funds and other EU funds with territorial impact can broaden their effects and synergies on the ground, if appropriate coordination mechanisms and arrangements are set up and agreed on by the implementing bodies. The design of the implementation structures at the beginning of the programming period, therefore, plays a key role. Coordination mechanisms are also crucial to avoid overlaps and duplication of efforts.

Despite this need, most interviewees took the view that cohesion policy is hardly coordinated with other EU and national policies with a regional focus. For example, an obvious candidate would be rural development under CAP pillar 2, but very limited synergies have so far been explored. On the positive side, one interviewee mentioned the Trans-European Transport Network, which is thought have a positive synergy with cohesion policy.

On national funds, some interviewees took the view that EU cohesion funding replaces national funding in countries that receive large amounts of EU funding; therefore, funding of certain sectors can become overly reliant on EU funding. This will create a challenge when EU funding declines.

5.8 Need for strategic focus

Several interviewees highlighted the importance of focusing on strategic issues. Frequent changes of priority might lead to loss of effectiveness. For example, when a new government is elected, phasing out existing programmes and launching new ones might hinder the effectiveness of both. Programmes and projects should look beyond the immediate priorities of the region and long-term strategies should be considered.

6 The implications for cohesion policy reform

Cohesion policy, the primary EU tool for promoting economic convergence, is set to be reformed. The European Commission has proposed a revised framework for cohesion (and regional) policy in the next MFF for the seven-year period from 2021 until 2027. The proposal is subject to intense debate. We wish to contribute to this debate based on our literature review, empirical research and interviews. We structure our discussion around twelve points.

6.1 The overall allocation of EU resources to cohesion policy and other priorities is a political issue, while synergies with other EU funds and national should be enhanced

29.2 percent of EU27 citizens (not considering the UK) lived in less-developed regions in 2013, which share is expected to drop to 25.2 percent by 2020 and 22.3 percent by 2027.

The first issue is the total amount of EU financial resources allocated to cohesion policy and the split of these resources between the funds. The European Commission has not presented a proper comparison of current and proposed future spending on cohesion or on agriculture. A careful comparison was made by Darvas and Moës (2018). EU agricultural spending also includes a regional fund, the European Agricultural Fund for Rural Development (EAFRD) that we included in our study and, therefore, we also look at the proposed allocation of EU resources to agriculture (Table 1).

Table 1 shows that overall, cohesion spending commitments are planned to be increased by 6 percent, after excluding commitments to be spent in the United Kingdom from the current 2014-2020 MFF. However, inflation is expected to erode the real value, leading to a reduction of 7 percent in real terms[16]. Since EU27 GDP is expected to grow from 2014-2020 to

16 Based on inflation at 2 percent per year, as the MFF calculations assume and the International Monetary Fund forecasts.

2021-2027 in real terms too, the proposed reduction of cohesion commitments as a share of GDP is greater than the reduction in real terms.

Our research does not have implications for the total allocations to cohesion purposes. We regard this allocation as a political issue, which should be based on the assessment of various priorities and the availability of EU financial resources after the United Kingdom leaves the EU. However, we note that with continued convergence, the need for cohesion policy is gradually reduced. According to the calculations in Darvas and Moës (2018), 29.2 percent of EU27 citizens (not considering the UK) lived in less-developed regions in 2013, that is, in regions with GDP per capita below 75 percent of the EU27 average. This share is expected to drop to 25.2 percent by 2020 and 22.3 percent by 2027.

Table 1: Cohesion and agricultural commitments in the current and the proposed next MFF, € billions

	Current prices				2018 prices**			
	2014-2020 MFF	2014-2020 MFF excl. UK*	2021-2027 MFF	Change, %	2014-2020 MFF	2014-2020 MFF excl. UK*	2021-2027 MFF	Change, %
Cohesion	366	354	374	6%	369	358	332	-7%
Of which ERDF	196	189	226	20%	198	190	201	5%
Of which ESF+	95	91	101	11%	96	92	90	-3%
Of which CF	75	75	47	-37%	75	75	41	-45%
CAP	408	379	365	-4%	413	384	324	-15%
Of which EAGF	313	289	286	-1%	316	292	254	-13%
Of which EAFRD	96	91	79	-13%	97	91	70	-23%

Source: Darvas and Moës (2018), based on various European Commission documents. Notes: ERDF: European Regional Development Fund; ESF+: European Social Fund+; CF: Cohesion Fund; CAP: Common Agricultural Policy; EAGF: European Agricultural Guarantee Fund; EAFRD: European Agricultural Fund for Rural Development. For 2021-2027, ESF+ merges the former ESF, the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation programme and the Health programme. For consistency, we therefore merged these instruments for 2014-2020 as well. * We computed these numbers by subtracting the UK's share of pre-allocations per programme (computed from http://ec.europa.eu/budget/mff/preallocations/index_en.cfm). For Health and ESI programmes, we approximated the UK share with the UK share of Total Cohesion Policy. ** For columns 5 and 6, we converted each year's current prices into 2018 prices using the GDP deflator for EU excl. UK from DG ECFIN's Ameco database (May 2018). For column 7, we deflated the annual current prices proposed values by the IMF inflation forecast (which is essentially 2 percent per year).

Whatever amount is allocated to cohesion policy, synergies with various EU funds and policies (such as CAP, Horizon Europe and digital projects) and with relevant national policies should be explored to improve effectiveness and impact. The Commission's proposal for improved synergies between cohesion funds and other EU instruments is welcome.

6.2 Our research would not call for a reduction in the Cohesion Fund within total cohesion funding

We found that among the four funds, only the CF is associated with better growth performance – the fund that the Commission proposes to reduce the most (Table 1). A possible explanation for the lack of a statistically significant positive correlation for the other funds could be their more diverse goals, including environmental protection and social inclusion, which might not immediately lead to faster economic growth. Therefore, the relative importance of economic convergence and other goals should be taken into account: if fostering economic convergence remains an important goal, then the relative funding of programmes that are typically funded by the CF should not be reduced. This could be achieved by not reducing the relative size of the CF, or by increasing the CF-type programmes in the portfolios of the other funds.

6.3 The negligible cohesion funding for more-developed regions brings into question its usefulness

A related question is if more developed regions should continue to receive cohesion funding[17]. These regions receive very little cohesion funding amounting to a mere 0.07 percent of the combined GDP of these regions (Table 2), which could be replaced by national funding easily (this amount is even lower than any planning error in a national budget). In contrast, less-developed regions receive a much higher share, 1.61 percent of GDP from the ERDF and ESF, and countries with GDP per capita below 90 percent of the EU average receive an additional 0.53 percent of GDP from the Cohesion Fund (Table 3). This much larger EU funding for less-developed regions has the potential to have a noticeable impact, whereas the impact on more-developed regions is bound to be negligible because of the negligible amount of financing as a share of GDP.

More developed regions receive very little cohesion funding amounting to a mere 0.07 percent of the combined GDP of these regions.

Table 2: Commitment appropriations for ERDF and ESF by type of region, MFF 2014-2020

	Combined nominal GDP 2014-2020 in € billions	Combined commitments for ERDF and ESF, current prices, in € billions	ERDF and ESF commitments over nominal GDP, 2014-2020
Less-developed regions	11 169	179	1.61%
Transition regions	11 921	37	0.31%
More-developed regions	85 042	56	0.07%

Source: Eurostat's 'Gross domestic product (GDP) at current market prices by NUTS 2 regions [nama_10r_2gdp]' database for nominal GDP in 2014-2016, while the 2017-2020 regional GDP values are assumed to grow at the same rate as the GDP growth of the country, for which we used the November 2018 European Commission forecast. The source of EU budget commitments is the European Commission (https://ec.europa.eu/regional_policy/en/funding/available-budget/).

As also confirmed by our interviews, the main reasons for continued provision of funding to more developed regions are partly political (giving every region some EU money so that local bodies sense some direct benefits from the EU budget), partly strategic (EU money could support the achievements of EU goals) and partly pan-European (by fostering cross-border cooperation). But the minor amount of funding might reach very few local beneficiaries and is unlikely to make a sizeable difference in terms of the achievement of EU goals and therefore makes this spending questionable.

Table 3: Commitments appropriations for the Cohesion Fund, MFF 2014-2020

	Combined nominal GDP 2014-2020 in € billions	Commitments for cohesion fund, current prices, in € billions	Cohesion fund commitments over nominal GDP, 2014-2020
Cohesion Fund countries	11 977	63	0.53%

Source: November 2018 forecast of the European Commission for combined nominal GDP for countries receiving Cohesion Funds (Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia). The source of EU Cohesion commitments is the European Commission (https://ec.europa.eu/regional_policy/en/funding/available-budget/).

17 The 2014-2020 MFF distinguishes between less-developed regions (regional GDP per capita below 75 percent of EU average), transition regions (between 75-90 percent) and more-developed regions (above 90 percent). For the 2021-2027 MFF, the European Commission proposes the change the dividing line between transition and more developed regions from 90 percent to 100 percent of EU average.

6.4 The proposed change in the indicators to be used when allocating funds across regions is minor

Another question is the selection of the indicators to be used when allocating funds to regions. The reform under scrutiny proposes a minor change: currently, allocations are set based on GDP (86 percent) and *"labour market, education, demographics"* (14 percent). Under the new rules, climate (1 percent), migration (3 percent) and more weight given to labour market, education, demographics (15 percent) would reduce the relative importance of GDP to 81 percent[18].

While this proposal entails only a minor change, in order to give a more nuanced and accurate representation of regional disparities, it is worth emphasising that our analysis consistently reports the substantial effectiveness of the CF in driving economic convergence, which is targeted exclusively to countries with lower GDP per capita. From this point of view, the discussion of the proposed change in the allocation key leads again to the political question of setting priorities: a clearer and narrower objective of economic convergence would suggest the role of GDP per capita in the allocations should not be reduced, but if other objectives, such as tackling climate change and social problems, are assessed to be more prominent, then perhaps an even more significant change in the allocation method is justified.

6.5 Results orientation should be a major aim of the reform, supported by simplification

Cohesion policy should be results-oriented (that is, tackling the actual problems for which an intervention was designed), and not indicator-oriented (such as measuring the length of roads built), while bureaucratic compliance rules should be simplified. The Commission's proposal to shorten and simplify the rulebook and to eliminate some procedures altogether is welcome, but more is needed to focus cohesion policy on results. Our interviewees highlighted that the Performance Framework was ineffective in fostering greater results orientation. An *ex-ante* evaluation of the real needs and objectives should not be only a formal commitment to comply with an obligation, but the most important step in designing cohesion programmes. It would be important to define the basic method to be used for the reports providing justifications and there should be attempts to compare methodologies when they are different. We also see great potential when the focus is on results in the wider use of the simplified cost option[19] and financing not related to costs, but to results[20]. Such a shift in focus could also alleviate problems associated with possible corruption and improper use of the funds, since beneficiaries will have to demonstrate that they have achieved results, instead of just declaring costs, which (in case of corruption or mismanagement) could be much higher than reasonable costs under sound management. Proportionality of audit activity based on risk analysis is a useful approach in order to reduce the unnecessary burden on beneficiaries and programme authorities and bodies. For high corruption-risk countries, national public procurement practices should be analysed very strictly, as should whether purchase prices for EU-funded projects correspond to market prices.

18 See the current and the proposed new allocation on slide 6 of European Commission (2018c).

19 Simplified cost options (SCOs) designate the "the use of flat rate financing, standard scales of unit costs and lump sums" when declaring costs as part of projects, with the European Commission paying out such costs instead of only reimbursing 'real costs'. It is expected that by 2020, SCOs will cover approximately 33 percent of the ESF, 2 percent of the EAFRD and 4 percent of the ERDF-CF budgets. More developed regions make greater use of SCOs than less developed regions. See Brignani and Santin (2018).

20 Article 125(1) of the Financial regulation applicable to the general budget of the Union allows EU contributions in the form of financing not linked to costs in two alternative cases: either (i) the fulfilment of conditions set out in sector-specific rules or Commission decisions; or (ii) the achievement of results measured by reference to previously set milestones or through performance indicators. See https://publications.europa.eu/en/publication-detail/-/publication/e9488da5-d66f-11e8-9424-01aa75ed71a1/language-en/format-PDF/source-86606884.

6.6 The national co-financing rate should be set on the basis of fiscal constraints, the additionality principle and corruption risk

Another important aspect of funding is the national co-financing rate. Average national co-financing rates are very low, typically below 20 percent in most central European and southern Italian regions, while in more advanced regions, it exceeds 50 percent (see Figure 2). The Commission plans to increase the minimum national co-financing rate to 30 percent for less developed regions, outermost regions, Cohesion Fund projects and interregional projects, 45 percent for transition regions and to 60 percent for developed regions, in order to improve the sense of ownership of projects at a local level and to incentivise quality spending. Our interviewees shared the view that increased national co-financing could increase ownership.

Increased national co-financing could impact the total volume of cohesion projects in the opposite way in fiscally constrained and non-constrained countries. In countries that do not face fiscal constraints, higher national co-financing might even lead to an increase in cohesion projects, because for a given amount of EU funding more national funding is added. On the other hand, in fiscally-constrained countries or regions, increased national co-financing would lead to fewer cohesion projects, because it reduces the fiscal capacity to spend on other issues, including growth-enhancing projects. Most likely this latter influence dominated our sample period (partly because of the global and European financial crises) and explains our empirical finding, which shows that higher national co-financing is associated with lower economic growth. This reasoning highlights the importance of national fiscal space considerations in setting the national co-financing rate. While several countries faced fiscal constraints during the recent economic crisis, if economic growth continues as currently predicted and interest rates remain low, fewer countries might face fiscal constraints in the 2021-2027 period than in the period after the 2008 global crisis, in which case some increase in the national co-financing rate would be justified.

When the risk of corruption or the less-careful use of EU funds is high, we see a clear rationale for increased national co-financing

Another consideration when setting the co-financing rate relates to the *ex-post* analysis of the additionality of EU funds. The European Parliament and Council in 2013 reaffirmed the additionality principle for cohesion policy[21]: "*In order to ensure a genuine economic impact, support from the Funds should not replace public or equivalent structural expenditure by Member States*". The idea behind this principle is that cohesion policy should complement, rather than substitute, national funding. However, it is questionable whether this principle has been actually obeyed. For example, Varblane (2016) concluded that EU funds replaced the Baltic countries' own funding of higher education research, thereby violating the additionality principle. We recommend a comprehensive analysis of whether this principle has been complied with for all countries and sectors using available data from recent years. If the analysis finds a widespread violation of this principle, then a higher national co-financing rate would be justified in the next MFF, in order to direct some of the national resources back to the funding of regional and cohesion projects.

A further aspect is corruption: when the risk of corruption or the less-careful use of EU funds is high, we see a clear rationale for increased national co-financing, echoing the recommendation of some of our interviewees.

Reduced involvement of EU money might be alleviated through an increase in the use of financial instruments, as envisaged in the Commission's proposal. More specifically, member states will be able, on a voluntary basis, to move (part of) their funds under shared management to an EU-wide instrument called InvestEU, with access to EU guarantees. This might incentivise the mobilisation of private capital and therefore reduce the gap left by a lower EU contribution. Under the InvestEU scheme, a single project could collect financing from financial instruments, grants and private and public funds,

21 In Regulation (EU) No 1303/2013. See https://ec.europa.eu/regional_policy/sources/docgener/guides/blue_book/blueguide_en.pdf.

marking a clear attempt to tackle financing constraints. A counter argument, however, is that the private sector's interest in cohesion projects can be variable and there are certain types of projects to which the private sector might not want to contribute financially.

Another way of combining EU funding with the most effective incentives for local entities is to make EU co-funding conditional on past use of funds, or so-called performance-based budgeting. This mechanism could feed a positive incentive dynamic whereby best-performing regions are rewarded with lower national co-financing requirements. Yet on the negative side, this could deprive regions that potentially need cohesion funds the most (ineffective use or absorption of funds can be caused by poor local governance) of useful help, thereby further distancing them from their most-advanced peers.

6.7 Reconcile the importance of a locally-led perspective with our finding of better centralised management

A message from our interviews was that effective deployment of EU finances critically depends on the administrative capacity of the managing authorities. Our econometric estimates also confirmed a statistically significant and robust relationship between economic growth and an indicator of institutional quality, with this indicator hopefully reflecting administrative capacity too. This is all the more relevant as the Commission's reform suggests adopting a *"locally led perspective"*, with greater reliance on local authorities for the management of funds. Our analysis, however, signals a negative correlation between economic growth and the proportion of projects managed by local entities. As a consequence, where administrative capacity is lacking, building proper expertise and structures should be a top priority. An alternative way of reconciling our findings with the greater involvement of regions and provinces would be to couple locally-led demand for projects, driven by more accurate knowledge of local needs and deficiencies, with higher-level allocation, oversight and management.

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

A focus on key investment priorities as proposed is arguably necessary to fostering progress towards EU-wide goals. However, it should be ensured that concentration of priorities does not translate into unnecessary limitations on the type of eligible project. In more-developed regions, thematic concentration along with the setting of fewer EU goals would be well justified. However, in less-developed regions, which have very different needs to more-developed regions, thematic concentration might not coincide with local needs, reducing the usefulness of cohesion policy. This problem was raised by several of our interviewees. We therefore call for varied thematic concentration, depending on the level of development of the region: a high level of concentration in more-developed regions and limited concentration in less-developed regions.

6.9 Focused and longer-term strategic programmes and projects are important, which do not require a high level of flexibility

Irrespective of the degree of thematic concentration, our results clearly show that at the programme level, more concentration of priorities is associated with better growth performance. That is, even if objectives are diversified for less-developed regions, each individual programme should be focused on a few objectives. Another related finding from our empirical research is that longer duration is also associated with better growth performance, which sounds intuitive. Longer-term projects probably involve more planning and greater implementation efforts. Both of these results are consistent with the importance of strategic focus in cohesion policy. Setting up long-term strategies and sticking to them in implementation seem to be important factors in the usefulness and effectiveness of cohesion policy.

For these reasons, we are less enthusiastic about the various forms of flexibility that are included in the Commission's proposal, including moving resources between priorities or even between funds. When programmes and projects are strategic and aim to tackle the fundamental problems of a region, they hardly need flexibility in terms of reallocation. Similarly, while we regard the mid-term review as very important, we do not advocate the Commission's proposed reprogramming for the last two years of the MFF. When programmes and projects are strategic, they might need changes to adapt to circumstances, but not fundamental reprogramming. The possibility of reprogramming increases uncertainty and might undermine implementation in the first five years of the MFF. Flexibility in the overall EU budget can be useful, in order to respond to major unexpected shocks (such as the 2015 immigration crisis), but we see much more limited need for flexibility in the special case of cohesion spending, which should focus on long-term strategic priorities.

6.10 Interregional projects should be further encouraged

The new proposal highlights the importance of further supporting interregional innovation projects. One of the most robust findings of our study is the great potential of interregional projects to unlock growth. In this respect, they appear to be more effective than the average ERDF project. However, care must be taken to avoid divergent tendencies that can arise if more-advanced regions are better able to engage in large-scale cooperation. Capacity building again becomes crucial, in which fostering cooperation between more and less-developed regions plays a useful role.

6.11 A strengthened link with the European Semester should be avoided

The strengthened link with the European Semester in the new proposal aims to better integrate economic-policy coordination in the EU with the use of EU funds. However, several interviewees said in their view the European Semester's country-specific recommendations (CSRs) do not coincide with the real needs of their countries. Moreover, there are also regional differences within countries, and CSRs rarely aim to tackle region-specific problems. Research on the implementation of the CSRs finds very low implementation rates, which have even deteriorated recently (Darvas and Leandro 2015, 2016; Efstathiou and Wolff, 2018, 2019). While views about the reasons for low and deteriorating CSR implementation rates can differ, they likely reflect the lack of popular and political support for the proposed reforms. Tighter linking of EU funds and the European Semester risks the politicisation of cohesion policy and, therefore, we do not recommend it.

6.12 We call for increased transparency over data and indicators on the design and implementation of projects

Finally, we call for increased transparency of data and indicators on the design and implementation of projects. One of the most challenging parts of our research concerned the collection of vast and reliable datasets. A more detailed and regularly updated dataset can only increase the space for democratic and scientific scrutiny of cohesion policy, ultimately benefitting all stakeholders.

References

Bachtler, J., I. Begg, D. Charles and L. Polverari (2013) *Evaluation of the Main Achievements of Cohesion Policy Programmes and Projects over the Long Term in 15 Selected Regions, 1989-2012, Final Report to the European Commission, European Policies Research Centre*, University of Strathclyde and London School of Economics, available at http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/cohesion_achievements/final_report.pdf

Bachtler, J., I. Begg, D. Charles and L. Polverari (2017) 'The long-term effectiveness of EU cohesion policy. Assessing the achievements of the ERDF, 1989–2012', in J. Bachtler, P. Berkowitz, S. Hardy and T. Muravska (eds) *EU cohesion policy. Reassessing performance and direction*, Routledge, available at https://www.taylorfrancis.com/books/10.4324/9781315401867

Crescenzi, R. and M. Giua (2017) 'Different approaches to the analysis of EU cohesion policy', in J. Bachtler, P. Berkowitz, S. Hardy and T. Muravska (eds) *EU cohesion policy. Reassessing performance and direction*, Routledge, available at https://www.taylorfrancis.com/books/10.4324/9781315401867

Darvas, Z. and A. Leandro (2015) 'The limitations of policy coordination in the euro area under the European Semester', *Policy Contribution* 2015/19, Bruegel, available at http://bruegel.org/2015/11/the-limitations-of-policy-coordination-in-the-euro-area-under-the-european-semester/

Darvas, Z. and A. Leandro (2016) 'Implementation of European Semester recommendations worsens further', *Bruegel Blog*, 15 June, available at http://bruegel.org/2016/06/implementation-of-european-semester-recommendations-worsens-further/

Darvas, Z. and N. Moës (2018) 'How large is the proposed decline in EU agricultural and cohesion spending?' *Bruegel Blog*, 4 May, available at http://bruegel.org/2018/05/how-large-is-the-proposed-decline-in-eu-agricultural-and-cohesion-spending/

Darvas, Z., A.M. Collin, J. Mazza and C. Midoes (2019) *Effectiveness of cohesion policy: Learning from the project characteristics that produce the best results*, Study prepared for the European Parliament's Committee on Budgetary Control

Efstathiou, K. and G.B. Wolff (2018) 'Is the European Semester effective and useful?' *Policy Contribution* 2018/9, Bruegel, available at http://bruegel.org/2018/06/is-the-european-semester-effective-and-useful/

Efstathiou, K. and G.B. Wolff (2019) 'What drives national implementation of EU policy recommendations?' *Working Paper* 2019/4, Bruegel, available at http://bruegel.org/2019/04/what-drives-national-implementation-of-eu-policy-recommendations/

European Commission (2018a) 'Legal texts and factsheets on the EU budget for the future', 2 May, available at https://ec.europa.eu/commission/publications/factsheets-long-term-budget-proposals_en

European Commission (2018b) 'Regional development and cohesion - legal texts and factsheets', 29 May, available at https://ec.europa.eu/commission/publications/regional-development-and-cohesion_en

European Commission (2018c) 'EU Budget for the future – Cohesion Policy 2021-27', presentation in Madrid, 21 June, available at http://www.dgfc.sepg.hacienda.gob.es/sitios/dgfc/es-ES/ipr/fcp2020/fcp2020Demyo/Documents/CP_2021-27_Madrid_21.6.18.pdf

Gramillano, A., P. Celotti, G. Familiari, B. Schuh and M. Nordstrom (2018) *Development of a system of common indicators for European Regional Development Fund and Cohesion Fund interventions after 2020*, study for the Directorate-General for Regional and Urban Policy, European Commission, available at https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/indic_post2020/indic_post2020_p1_en.pdf

Hagen, T. and P. Mohl (2009) 'Econometric evaluation of EU Cohesion policy – A survey', *Discussion Paper* No. 09-052, Zentrum für Europäische Wirtschaftsforschung (ZEW), available at *http://ftp.zew.de/pub/zew-docs/dp/dp09052.pdf*

Marzinotto, B. (2012) 'The growth effects of EU Cohesion policy: A meta-analysis,' *Working Paper* 2012/14, Bruegel, available at http://bruegel.org/2012/10/the-growth-effects-of-eu-cohesion-policy-a-meta-analysis/

Pienkowski, J. and P. Berkowitz (2015) 'Econometric assessments of Cohesion policy growth effects: How to make them more relevant for policy makers?' *Regional Working Paper* 02/2015, European Commission, Directorate-General for Regional and Urban Policy, available at https://ec.europa.eu/regional_policy/en/information/publications/working-papers/2015/econometric-assessments-of-cohesion-policy-growth-effects-how-to-make-them-more-relevant-for-policy-makers

Varblane, U. (2016) 'EU structural funds in the Baltic countries: useful or harmful?' *Estonian Discussions on Economic Policy* 24(2): 120-137, available at https://ojs.utlib.ee/index.php/TPEP/article/view/13098/8175

Annex: Interviewees

From the European Commission we interviewed:

- Mariana Hristcheva, Head of Unit, Evaluation and European Semester, DG REGIO, and her colleagues, Daria Gismondi and John Walsh.

From national authorities we interviewed:

- Richard Brooš, Third Secretary, Regional Policy and Coordination of Funds, the Permanent Representation of the Slovak Republic to the European Union;
- Paolo Fischetti, Head of Unit, Ministry of Economy and Finance, General Accounting Department, General Inspectorate for Financial Relationships with the EU, Italy;
- Radomir Matczak, Director, Department for Regional and Spatial Development, Office of the Marshal of the Pomorskie Region, Poland;
- María Muñoz, Deputy Director, Programming and Evaluation Unit, General Directorate of European Funds, Ministry of Finance, Spain;
- Sip Oegema, Head of Unit, Strategy, EU programmes, Analysis, Directorate-General for Enterprise and Innovation, Ministry of Economic Affairs and Climate Policy, the Netherlands; and
- Ulrike Schreckenberger, National Coordination of EU Cohesion and Structural Policy/ERDF, German Federal Ministry for Economic Affairs and Energy, Germany.

We also interviewed a number of independent experts:

- Iain Begg, Professorial Research Fellow, European Institute, London School of Economics and Political Science, United Kingdom;
- Klaudijus Maniokas, Chairman of the Board, European Social, Legal, and Economic Projects (ESTEP) and associate professor at the Institute of International Relations and Political Science, Vilnius University, Lithuania;
- Urmas Varblane, Professor of International Business, University of Tartu, Estonia; and
- András Vértes, Chairman, GKI Economic Research, Hungary.

The ten home countries of these national interviewees provide a diverse set of countries including less and more-developed regions.

- One additional interviewee wished to stay anonymous.

We are grateful to these people for sharing their thoughts with us and allowing us to publish their names. We do not attribute specific answers to individuals or their institutions.