Complementarity or conflict?

The (in)coherence of Cohesion policy

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Preface

This paper has been prepared by the Laura Polverari and Rona Michie, at the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. EoRPA members currently comprise the following partners:

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- Bundeskanzleramt (Federal Chancellery), Vienna

Finland

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- Bundesministerium für Wirtschaft und Technologie (Federal Ministry for Economics and Technology), Berlin
- Ministerium für Wirtschaft, Mittelstand und Energie des Landes Nordrhein-Westfalen (Ministry of Economics, SMEs and Energy of the *Land* of Nordrhein-Westfalen)

Italy

- Ministero dello Sviluppo Economico (Ministry of Economic Development), Dipartimento per lo sviluppo e la coesione economica (Department for Development and Economic Cohesion), Rome

Netherlands

- Ministerie van Economische Zaken (Ministry of Economic Affairs), The Hague

Norway

- Kommunal-Og Regionaldepartementet (Ministry of Local Government and Regional Development), Oslo

Poland

- Ministerstwo Rozwoju Regionalnego (Ministry of Regional Development), Warsaw

Sweden

- Näringsdepartementet (Ministry of Enterprise, Energy and Communications), Stockholm

United Kingdom

- Department for Business, Innovation and Skills, London
- East Midlands Development Agency (EMDA) on behalf of the English RDAs
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

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The country reviews in this report have been drafted by ERPC researchers and research associates as follows:

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More detailed country information is available to partners from the EoRPA website. At present, country reviews focus on the EU15 plus Poland and Norway, with the remaining EU12 countries being combined together in a single review. The focus on the EU15, Poland and Norway reflects the historical coverage of EoRPA prior to enlargement and the fact that both Poland and Norway are members of the EoRPA Consortium.

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Disclaimer

It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the EoRPA Consortium.

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As the preparatory work for the revision of the EU budget for the period 2014+ gets underway, Cohesion policy is once again under scrutiny. Strategic reflections on the future role of the policy include its relationship with other EU policies and with domestic policies. A key question is whether Cohesion policy should be embedded within a wider policy framework with a view to achieving greater policy coherence with other relevant policies at both EU and national levels. The EU debate is also giving increased attention to institutional contexts and whether Member States have appropriate institutional frameworks and administrative capacity in place to facilitate the effective use of EU funding.

Against this background, this paper explores the interrelationships between Cohesion policy and domestic policy frameworks and institutional environments (which the paper calls the 'external' coherence of Cohesion policy), using examples from the following EoRPA countries – Austria, Finland, France, Germany, Italy, The Netherlands, Poland, Sweden and the United Kingdom – plus Ireland and Spain. A review is also presented of the main tensions with respect to the 'internal' coherence of Cohesion policy, i.e. its internal functioning and whether some features of the current Cohesion policy regulatory framework may hinder the policy's effectiveness in achieving its goals.

The interrelation between Cohesion policy and domestic policies

Studies on economic growth and regional disparities have linked the level of economic development of regions and the potential and speed for regional convergence to a number of factors, not all of which are pursued through regional policy. This suggests that it is of paramount importance to avoid the trap of considering regional policy – and Cohesion policy within it - in isolation from other policies. Such policies and spending are not always explicitly regionally 'targeted' or even regionally aware, and they may have detrimental effects for the goals of Cohesion policy.

Fieldwork research in the EoRPA sponsor countries has highlighted important tensions between Cohesion policy (and regional policy more generally where applicable), and other policies implemented domestically and the broader macro-economic framework. These relate to: (i) the overall spatial distribution of capital public expenditure; (ii) labour market; (iii) welfare and social protection; (iv) rural policy; and, (v) transport policy.

Thus, from the review conducted, it is clear that Cohesion policy may be hindered from effective pursuit of its intended goals if there are contradictions between sectoral and territorial policies. The provisions of art. 175 of the EU Treaty, that EU Member States should coordinate their economic policies so as to attain the objectives of Cohesion policy, implies the need for increased cross-policy coordination, yet there is little evidence to suggest that considerations of external coherence are taken into account and monitored in the countries reviewed. Only in one country is there a tool for the ex post monitoring of the territorial distribution of expenditure, and the tensions that exist between Cohesion policy and domestic policies do not appear to have extensively and comprehensively explored or taken into account at the stage of policy preparation.

The interrelation between Cohesion policy and domestic regional policies

Having reviewed the broader policy context for the implementation of Cohesion policy, the paper focuses on the relationship between domestic regional policies and Cohesion policy. Domestic regional policies generally include both 'narrow' regional policy, i.e. strategies and interventions targeted to specific regions or territories, and 'broad' regional policy, consisting of the territorial differentiation of wider policies for economic development, competitiveness and growth. In a few countries, notably Austria, Ireland and the United Kingdom, narrow regional policy is not prominent.

'Narrow' domestic regional policies have different goals in different Member States. Notwithstanding diversity in the objectives pursued, they are widely considered to be operating with a great deal of strategic coherence with Cohesion policy. Two types of strategic relationship can be identified between domestic regional policy and Cohesion policy: integration or coordination.

There are a number of reasons for this high degree of strategic fit between Cohesion policy and domestic regional policies. First, in countries with considerable portions of territory covered by the Convergence Objective, Cohesion policy has played an important role in setting the agenda for domestic regional policy for the current period. Second, Member States have increasingly taken steps to ensure strategic integration between EU and domestic priorities and spending. Third, cross-financing arrangements between the two policy areas are widespread. For these to succeed, the two sets of policies must be strategically aligned. Fourth, for the 2007-13 period, Structural Funds programmes have been developed to adhere closely to the priorities and goals of the Lisbon agenda. At the same time, domestic policy has also been steered in this direction under the National Reform Programmes. Last, Member States are directly involved in setting the guidelines and regulations that govern Cohesion policy programmes and in setting their priorities for each programme period.

Nevertheless, some tensions between the two sets of policies can be identified. These relate to: (i) the spatial focus of policy; (ii) the allocation of financial envelopes; and (iii) management and delivery arrangements (inflexibility of Cohesion policy, misalignment with domestic practice, additionality, contrasting timetables and disjointed implementation).

Coordination initiatives and frameworks

The research highlights the measures used by some Member States to coordinate different policies. These are both 'institutional' and 'strategic' and include both long-term arrangements and more recent measures.

On the institutional side, the research illustrates examples of coordination of different policies via: long-standing institutional arrangements and recent government reforms; the targeting of increased cross-sectoral integration at the regional level with a reorganisation of functions at this level; and the achievement of increased integration between domestic and EU co-funded regional policy through increased operational integration at the level of policy instruments.

Among the 'strategic' measures, the paper presents cases of: the coordination of domestic and EU co-funded regional policies achieved at national level through the NSRF; the integration of the regional dimension in sectoral policies through spatial planning; and coordination of regional policy with wider economic development policies at the regional level. However, the effectiveness of such measures warrants a more thorough assessment.

Administrative capacities, institutional contexts and public sector efficiency

Cohesion policy does not operate in a vacuum: it is managed, implemented and delivered by the public administrations of Member States and regions. The degree of institutional capacities available - at both these levels, at sub-regional levels and amongst partners and beneficiaries - is thus paramount to ensure effective and efficient policy delivery.

All the countries covered by the paper are considered to have a degree of administrative capacity that is at least sufficient to ensure that policy is delivered to specification. Indeed, in most of the countries reviewed, administrative capacity at all levels concerned by Cohesion policy is considered to be high. In some cases, however, there are unresolved issues. In such cases, Cohesion policy funding is utilised for the purpose of raising administrative capacities. In other cases, the delivery of Cohesion policy has not been hindered by insufficient domestic administrative capacities *per se*, but instead by the introduction of domestic administrative reorganisation.

The 'internal' coherence of Cohesion policy

The last theme explored by the paper is the 'internal' coherence of Cohesion policy, i.e. its internal functioning. This also presents challenges and contradictions that may unintentionally hinder the attainment of the goals of the policy. An extensive range of literature and policy research has already been produced on this topic; for this reason, the paper presents only a summary review of the most important of these tensions. They relate to the policy's strategic and territorial focus and to the administration of the policy, perceived to be too burdensome and formalistic (and thus not in line with policymaker aspirations for an increased results-orientation) and also unbalanced towards financial accountability. Some suggestions to overcome these limitations were presented in the Barca Report, but there is not yet consensus on the reforms needed to strengthen 'internal' coherence of Cohesion policy.

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1. INTRODUCTION

As the preparatory work for the revision of the EU budget for the period 2014+ gets underway, Cohesion policy is once again under scrutiny. Strategic reflections on the future role of the policy include its relationship with other EU policies and with domestic policies. A key question is whether Cohesion policy should be embedded within a wider policy framework with a view to achieving greater policy coherence with other relevant policies at both EU and national levels. The EU debate is also giving increased attention to institutional contexts and whether Member States have appropriate institutional frameworks and administrative capacity in place to facilitate the effective use of EU funding.[1]

Against this background, this paper explores the interrelationships between Cohesion policy and domestic policy frameworks and institutional environments, using examples from the following EoRPA countries – **Austria**, **Finland**, **France**, **Germany**, **Italy**, **The Netherlands**, **Poland**, **Sweden** and the **United Kingdom** – plus **Ireland** and **Spain**. It seeks to identify the potential tensions that exist between Member States' own policy and institutional contexts and the goals pursued through Cohesion policy. Some of these tensions are specific to the relationship between EU and domestic funding; some are part of the wider relationship between territorial and sectoral policies; and others relate to the domestic administrative frameworks in which the policies are delivered. However, all have implications for the likelihood of Cohesion policy to deliver on its intended objectives. The paper discusses these tensions and also presents examples of long-standing and more recent initiatives introduced to prevent them.

It should be noted that this is a discussion paper. Rather than providing a comprehensive survey of all policy linkages and institutional relationships, it selectively uses examples of policy and institutional coherence in different EoRPA countries, as they have emerged from the EoRPA country research, simply to provide an illustration of complementarities and tensions.

The paper is structured as follows. Section 1 discusses the relationship between Cohesion policy and wider domestic policies, considering the overall spatial distribution of capital public expenditure, issues of labour market regulation, welfare policy and social protection, before turning to rural policy and transport policies as specific sectoral policies

[1] For a full review of the state of play of the debate on the 2014-20 budget and future Cohesion policy, see Mendez C, Bachtler J and Wishlade F (2010) *Setting the stage for the reform of Cohesion policy after 2013*, Report to the European Regional Policy Research Consortium (EoRPA Paper, 2010/6), European Policies Research Centre, University of Strathclyde, Glasgow

with important spatial implications. Section 2 reviews the existing relationship between Cohesion policy and (where existing) the domestic regional policies of EoRPA countries, considering the degree of strategic fit between them. Section 3 illustrates examples of 'institutional' and 'strategic' means by which Member States ensure coordination between different policies, in particular to increase the coherence between domestic policies – both for regional development and more widely – and Cohesion policy. The broader topic of domestic institutional environments and capacities is explored in Section 4. Some of the tensions intrinsic to Cohesion policy, such as its conception and operationalisation, are reviewed in Section 5. Conclusions are presented in Section 6, accompanied by questions for discussion at the forthcoming EoRPA meeting.

2. THE INTERRELATIONSHIP BETWEEN COHESION POLICY AND DOMESTIC POLICIES

2.1 Domestic policies and regional growth and convergence

Studies on economic growth and regional disparities have linked the level of economic development of regions and the potential and speed for regional convergence to a number of factors, not all of which are pursued (or exclusively pursued) through regional policy. They include the level of education and skills in the regions,[2] the available transport and business infrastructure,[3] the availability of knowledge capital,[4] the endowment of regions in terms of telecommunications infrastructure,[5] and the existence of an efficient public administration and broader institutional context, e.g. a functioning judicial system.[6] Some of these factors - the quality of human resources and infrastructure, for instance - are considered to generate positive externalities. If one business (or the public sector) invests, others also benefit, thus generating permanent positive returns to investment and increasing productivity and, as a result, income.[7] Other factors, notably the availability of an efficient public administration and institutional structure, relate to the basic requirements without which a region is considered unsuitable as an investment location, due to the increased set-up and running costs for businesses (and thus production costs) or

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[2] Lucas R. E. Jr. (2000) 'Some macro-economics for the 21st century', *Journal of Economic Perspectives*, 14, 1, pp. 159-198; De La Fuente, A. and Vives, X. (1995) 'Infrastructure and education as instruments of regional policy: evidence from Spain', *Economic Policy*, 10, 20, pp. 13-51; Rodríguez-Pose, A. and Fratesi, U. (2004) 'Between Development and Social Policies: The Impact of European Structural Funds in Objective 1 Regions, *Regional Studies*, 38, 1, pp. 97-113.

[3] Aschauer D. A. (1989) 'Is public expenditure productive?' *Journal of Monetary Economics*, 23, 2, pp. 177-200; De La Fuente, A. and Vives, X. (1995) *op. cit.;* Helpman, E. (2004) 'The mystery of economic growth' (Belknap Press of Harvard University Press, Cambridge Mass); Puga D. (2002) 'European regional policies in light of recent location theories', *Journal of Economic Geography*, 2, pp. 373-406; Moncarz, P. E. and Bleaney, M. (2010) 'The Regional Impact of Trade Liberalization in a Model with Congestion Costs à la Helpman', *Regional Studies,* 44, 8, pp. 935-947.

[4] Romer P. M. (1986) 'Increasing returns and long-run growth', *Journal of Political Economy*, 94, 5, pp. 1002-1037; Romer P. M. (1990) 'Endogenous technological change', *The Journal of Political Economy*, 98, 5, Part 2: The Problem of Development: A Conference of the Institute for the Study of Free Enterprise Systems (Oct., 1990), pp. S71-S102; Cappelen, A., Castellacci, F., Fagerberg, J. & Verspagen, B. (2003) 'The Impact of EU Regional Support on Growth and Convergence in the European Union', *Journal of Common Market Studies*, 41, 4, pp. 621-644; Cutrini, E. (2009) 'Specialization and Concentration from a Twofold Geographical Perspective: Evidence from Europe', *Regional Studies*, 44, 3, pp. 315-336.

[5] Cieślik, A. and Kaniewska, M. (2004) 'Telecommunications Infrastructure and Regional Economic Development: The Case of Poland', *Regional Studies*, 38, 6, pp. 713-725; Lamborghini, B. (2006) 'Promozione degli investimenti ICT e *skills* nei servizi per la produttività e la competitività del Mezzogiorno, *L'industria*, pp. 107-111.

[6] Helpman, E. (2004) *op. cit.*; Sapienza, R. (2009) 'Brevi puntualizzazioni sul tema dei rapporti della pubblica amministrazione con cittadini e imprese nel Mezzogiorno italiano: il caso dell'eccessiva durata delle procedure giudiziarie', *Rivista Giuridica del Mezzogiorno*, XIII, 3, pp. 951-960.

[7] Cieślik, A. and Kanieweska, M. (2004) 'Telecommunications Infrastructure and Regional Economic Development: The Case of Poland', *Regional Studies*, 38, 6, pp. 713-725.

the uncertain legal context, which have detrimental impacts on the functioning of the capital market and on inward investment attraction.[8]

Spending in the above areas does not have a clear-cut effect on regional convergence. The impact on regional disparities of investments in these fields depends instead on the wider interplay between different factors and policies. For instance, with respect to transport infrastructure, it has been argued that the realisation of motorway infrastructure to link North and South **Italy** has had a negative effect on regional convergence by opening the Southern regions to the goods produced in the North.[9] It has been suggested that a distinction needs to be made between transport infrastructure aimed at supporting domestic versus international trade. The second type can potentially damage rather than develop a country's lagging regions,[10] and regional convergence may be promoted or hindered by lower international trade costs depending on the relative level of infra-national trade costs, as well as the relative costs of labour and land in different regions, and the extent of negative economic externalities, such as congestion, in agglomerations.[11] OECD research has argued that infrastructure investments have a positive effect on regional growth only in the presence of positive externalities in a given region.[12]

Telecommunication infrastructures also have an impact on the spatial distribution of economic activities. Cieślik and Kanieweska concluded in their study on Polish regional development that there is a "positive and statistically significant causal relationship between telecommunications infrastructure and the level of income for Polish regions", suggesting the need to closely coordinate the two sets of policy.[13]

The functioning of the financial market is another important factor in determining regional economic growth potential and, where this is uneven across a national territory, the degree of convergence amongst regions. Policy instruments in this area are increasingly becoming part of the regional policy package, but measures in this field are also used more widely as

[8] Chiorazzo, V. (2006) 'Servizi finanziari e competitività del Mezzogiorno', *L'industria*, 1, pp. 61-74.

[9] Faini, R. (1983) 'Cumulative process of deindustrialization in an open region: the case of Southern Italy, 1951–1973', *Journal of Development Economics*, 12, pp. 277–301 (quoted in Cieślik and Kanieweska (2004) *op. cit*). Indeed, other authors have criticised Italian regional policy because it transformed the Mezzogiorno into a market for the rest of the country, see Lombardini, S. (1992) 'Vecchi e nuovi problemi al sud', in D'Antonio, M. (ed.) *Il Mezzogiorno d'Italia: sviluppo o stagnazione?* Il Mulino, Bologna (quoted in Fratesi (2007) *op. cit.*).

[10] Martin, P. and Rogers, C. A. (1995) 'Industrial location and public infrastructure', *Journal of International Economics*, 39, 3–4, pp. 152–166, quoted in Fratesi, U. (2007) 'Regional policy from a supra-regional perspective', *The Annals of Regional Science*, 42, 3, pp. 681-703.

[11] P. E. Moncarz and M Bleaney (2010) 'The Regional Impact of Trade Liberalization in a Model with Congestion Costs à la Helpman', *Regional Studies*, 44, 8, 935-947. Puga D. (2002) 'European regional policies in light of recent location theories', *Journal of Economic Geography*, 2, pp. 373-406.

[12] OECD (2009) *Regions Matter. Economic Recovery, Innovation and Sustainable Growth*, Paris, p. 57. The report observes that "Faster transport connections can exploit potential positive externalities that exist in various markets – typically unexhausted economies of scale, scope, agglomeration, density or network – and consequently improve (labour) productivity, enhance output, reduce production costs and promote more efficient use of resources. If such latent economies do not exist, however, improvements in accessibility could lead to changes in existing transport flows and spatial patterns without having long-term effects on growth", p. 57.

[13] Cieślik, A. and Kanieweska, M. (2004) *op. cit.*, p. 721.

instruments for non-spatially discriminated economic development policy. One study on venture capital programmes in the **UK** and **Germany** suggests that the limited regionalisation "means that policies are generating a regionally uneven pattern of investment".[14] On the other hand, research conducted by the Bank of Italy suggests that the efficiency of the financial market is affected by environmental factors. In the Italian *Mezzogiorno*, in particular, the high proportion of irregular work, higher incidence of economic frauds, the longer times of justice proceedings and the presence of organised crime all contribute to render the availability of credit for entrepreneurial investments less accessible in this area than in the remainder of the country.[15] This suggests the necessity of complementing measures to address the deficiencies of the capital market with additional measures capable of addressing the wider contextual deficiencies of the area.

Similar observations can be made on wage bargaining approaches or regulation, and the territorial distribution of public sector employment. Although not necessarily viewed as regional development policies in the strict sense, measures in these fields have been used as a lever to ameliorate GDP disparities in the past by raising the income from labour and living standards in lagging regions. For example, both in **Italy** and in post-reunification **Germany**, wages have been artificially raised to increase per capita incomes in the Italian *Mezzogiorno* and Eastern *Länder*. However, this is considered to have resulted in household expenditure convergence rather than productivity increases and growth, consequently delaying the long-term catch-up of these regions.[16]

To summarise, investments in the above policy fields can equally favour or hinder regional GDP convergence depending on spatial distribution, financial scale and interaction with other variables such as factor mobility.[17] This suggests that it is of paramount importance to avoid the trap of considering regional policy – and Cohesion policy within it - in isolation from other policies. Such a concern is particularly relevant in the EU15 Member States, where EU Cohesion policy receipts are relatively low compared to domestic policy budgets, as illustrated by column D in Table 1. As a consequence, many of the investments outlined above are undertaken as part of domestic policies and spending. However, they are not always explicitly regionally 'targeted' or even regionally aware, and they may have detrimental effects for the goals of Cohesion policy.

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[14] Sunley, P., Klagge, B., Berndt, C. and Martin, R. (2005) 'Venture capital programmes in the UK and Germany: In what sense regional policies?' *Regional Studies*, 39, 2, pp. 255-273.

[15] Cannari, L. and Gobbi, G. (2010) 'Il sistema finanziario', in Cannari, L. and Franco, D. (eds.) *Il Mezzogiorno e la politica economica dell'Italia*, Seminari e convegni, n. 4, giugno 2010, pp. 51-59; Bonaccorsi di Patti, E. (2009) 'Legalità e credito: l'impatto della criminalità sui prestiti alle imprese, in Cannari, L. (ed.) *Mezzogiorno e politiche regionali*, Banca d'Italia, Eurosistema, Seminari e Convegni, no. 2, November 2009, Roma, pp. 165-189.

[16] Fratesi, U. (2008) *op. cit.*, p. 683. See also Directorate General for Economics and Financial Affairs (2007) 'Raising Germany's Growth Potential', *European Economy Occasional Paper,* 28, February 2007.

[17] Wildasin, D. E. (2000) 'Factor mobility and fiscal policy in the EU: policy issues and analytical approaches', *Economic Policy*, 15, 31, pp. 339-378.

Table 1: Cohesion policy average annual expenditure in percentage to government annual capital expenditure and GDP (2007 figures)

Country	Cohesion policy 2007-13 average annual allocations (€bn) A	Government capital expenditure[1] (2007) (€bn) B	GDP (2007) (€bn) C	Cohesion policy/ government capital expenditure D (A/B)	Proportion of Cohesion policy/GDP E (A/C)	Proportion of government capital expenditure/ GDP F (B/C)
Austria	0.21	2.8	270.8	7.45	0.08	1.03
Finland	0.25	4.4	179.5	5.57	0.14	2.45
France	2.05	62.2	1894.6	3.29	0.11	3.28
Germany	3.76	34.3	2428.2	10.97	0.15	1.41
Ireland	0.13	8.4	189.8	1.53	0.07	4.43
Italy	4.12	35.8	1546.2	11.50	0.27	2.32
Netherlands	0.27	19.1	568.7	1.43	0.05	3.36
Poland	9.61	13	311	73.94	3.09	4.18
Spain	5.03	42.6	1052.7	11.81	0.48	4.05
Sweden	0.27	10.2	331.1	2.65	0.08	3.08
United Kingdom	1.52	39.8	2044.1	3.81	0.07	1.95

1. Gross fixed capital formation (general government), used as a proxy for total government capital expenditure. All prices are current for 2007.

Source: EPRC elaboration based on data from DG Regio (http://ec.europa.eu/regional_policy/policy/fonds/pdf/annexe-recto.pdf, DG ECFIN AMECO (http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm).

2.2 Domestic policies and the goals of Cohesion policy

In accordance with the observations discussed above, the EU Treaty (art. 175[18]) states that 'Member States shall conduct their economic policies and shall coordinate them in such a way as, in addition, to attain the objectives set out in Article 174'. Whether this is actually the case has not been systematically appraised,[19] hampered by the absence, in a majority of Member States, of monitoring systems that track the distribution of public expenditure (beyond regional policy) across a country's territory. This task is rendered particularly difficult by two factors: first, the non-territorialised *ex ante* articulation of sectoral spending (which would thus have to be reconstructed *ex post*); and, second, the involvement of different levels of government in public spending (which entails both the need to monitor the territorial distribution of expenditure at different levels of government, and the necessity to provide adequate forms of cross-level strategic coordination). The exception to this is **Italy**, where a database was set up in the mid-1990s

[18] Previously art. 159 TEC.

[19] Begg, I. (2008) 'Subsidiarity in Regional Policy', in Gelauff, G., Grilo, I. and Lejour, A. (eds) *Subsidiarity and Economic Reform in Europe* (Springer-Verlag, Berlin/Heidelberg, 2008, p. 78).

to track expenditure flows at regional and sub-regional levels and is now fully operational - the Territorial Public Accounts database (see Box 1).[20]

Box 1: The Italian Territorial Public Accounts database (*Conti Pubblici Territoriali*)

Set up in 1994, but only progressively implemented, the database provides detailed information on all capital public spending disaggregated regionally from 1996 onwards. It includes data on expenditure by the public administration and the so-called 'enlarged public sector', i.e. the expenditure realised by publicly-owned companies that provide public services at both national and sub-national level, such as those that manage the railways (*Ferrovie dello Stato SpA)*, roads (ANAS) and the energy network (ENEL), and the local public utilities that typically operate in the fields of water, energy and waste (for instance the Roman Acea or Emilia Romagna's Hera).

Data are drawn from the final (ex post) accounts (*bilancio consuntivo*) of the administrations/public utilities monitored, tracking down the income and expenditure effectively realised. The time lag between the data produced and the expenditure realised is 12-18 months. The data are produced through a network of regional units and drawn up and maintained centrally by a Central Technical Unit. They can be consulted online by the public at http://www.dps.tesoro.it/cpt/banca_dati_home.asp. Since 2005, the database has been part of the National Statistical System (SISTAN, National Statistics Programme).

Fieldwork research in the EoRPA sponsor countries has highlighted important tensions between Cohesion policy (and regional policy more generally where applicable) and other policies implemented domestically and the broader macro-economic framework. These relate to the overall spatial distribution of capital public expenditure, labour market, welfare and social protection, rural policy, and transport policy. These examples do not represent a comprehensive account of all potential tensions, but rather an illustration of the issues based on EoRPA field-research. They are briefly explored in the paragraphs to follow.

Before turning to the analysis of the external tensions of Cohesion policy with other policies implemented domestically in the Member States, it is useful to recall that there are also countries in which domestic economic and sectoral policies are not perceived as conflicting with the goals of regional development (e.g. **Austria**, **the Netherlands**, **Finland** and **Sweden**). In some cases, this is a result of the limited scale of the 'regional problem' and/or relatively small (compared to the domestic budget) financial input provided by Cohesion policy. Where regional problems are greater, and the scale of EU funding more significant, however, the lack of obvious tension seems to be due also to the existence of

[20] Although in other countries, notably Finland, the appraisal of the spatial effects of different domestic policies is carried out periodically, generally in preparation for the start of a new policy cycle (the last time at the beginning of 2000 as part of a wider evaluation). This is consistent with the concept of 'broad regional policy' that is applied in this Country and the commitment contained in the Regional Development Act for both vertical and horizontal (sectoral) policy coordination with the principles and goals of the Act. Interestingly, there were plans to introduce a system for the monitoring of the regional impact of all policies in Ireland (i.e. the policies contained within the 2007-13 National Development Plan and 2002-2020 National Spatial Strategy), but these were shelved following the economic crisis.

mechanisms or tools for cross-sectoral coordination or to umbrella policy frameworks. These measures are discussed in Section 3.

2.3 Overall spatial distribution of capital public expenditure

Capital public expenditure is the part of public expenditure that is directly linked to development: it comprises expenditure for public investments and transfers to the productive system.[21] From the perspective of regional policy, capital public expenditure overall can be divided into mainstream and spatially-targeted spending.[22] The first is the expenditure undertaken by the State (in its different territorial articulations) across the national territory, for instance in the fields of education, transport and healthcare. The second comprises the public resources devoted explicitly to regional development, i.e. for the economic development of lagging regions, however they may be defined. [23] Depending on the country, and particularly depending on whether that country has a domestic regional policy in addition to the regional policy co-financed by the European Union, the 'spatially targeted' component of public spending is composed of the Structural Funds and the related domestic co-financing (i.e. Cohesion policy), plus, where applicable, other spatially targeted public spending represented by the resources allocated to domestic regional policy.

In principle, the ring-fencing of capital resources for specific territories can occur in two ways: first, with the setting of a minimum target of spatially-targeted capital spending for the lagging regions, to be achieved in addition to the mainstream spending (as was attempted, until recently, in **Italy**); and, second, with the establishment of *ad hoc* capital spending programmes for target regions, which are implemented in addition to mainstream spending programmes (as in **Germany**). However, both approaches present specific tensions and challenges.

By definition, the spatially targeted component of capital public spending is inferior to its mainstream counterpart (although in proportions that will vary from country to country). For this reason, the overall spatial allocation of the mainstream component of public capital expenditure can have important consequences for the attainment of regional policy goals or for the evolution of regional disparities across a country. For instance, if the spatially targeted spending effort is more than counterbalanced in areas not targeted by regional policy by a more-than-proportional allocation of mainstream public spending, this will hamper the capacity of regional policy to deliver its aims. This is a point that has emerged as particularly controversial in **Italy**, despite the sizeable amount of 'additional' spending, which represents circa one-fourth of the overall public capital spending.[24]

[21] As opposed to current expenditure, which is the expenditure for salaries and other ordinary running costs of the public administration. Viesti, G. (2009) *Mezzogiorno a tradimento. Il Nord, il Sud e la politica che non c'è* (Laterza, Bari).

[22] Viesti, G. (2009) *op. cit.*, p. 48.

[23] In Italy, these two categories of expenditure are denominated 'ordinary' and 'additional'. See Viesti, G. (2009) *op. cit.*, p. 48; Ministero dell'Economia e delle Finanze (2002) *Quarto Rapporto del Dipartimento per le Politiche di Sviluppo 2000-2001*, Rome, 2002, p. 63 and subsequent annual reports by the same department.

[24] Viesti, G. (2009) *op. cit.*

Equally, it is important that the capital spending set aside for the lagging regions is utilised for capital investments. However, the experience of the German *Eastern Länder* suggests that this may be challenging if mainstream capital resources or current expenditure are not sufficient to cover the public finance needs of lagging territories; in such cases, funding intended for additional capital expenditure may be vired (transferred) to other spending areas which may not directly contribute to growth.

Italy is an interesting example in this respect. The main targets of Italian regional policy are the eight *Mezzogiorno* regions, for which 85 percent of the domestic regional policy budget is ring-fenced (the Fund for Underutilised Areas, FAS). These regions comprise the four regions that are also eligible for the Convergence Objective and are thus the largest recipients of Cohesion policy in **Italy**. However, if one looks at the territorial distribution of overall public capital spending, it is apparent that, net of regional policy transfers, these regions receive less than their 'fair share', with the consequence that regional policy resources are used to fund investments that in the remainder of the country are funded by mainstream resources.[25]

Subsequent Italian Governments from 2001[26] to 2007 have set a target of achieving a quota of total public capital expenditure in the *Mezzogiorno* (i.e. mainstream plus spatially-targeted) of 45 percent. This was to be achieved gradually by increasing the share of mainstream capital expenditure in this macro-area to 30 percent, an intermediate measure between its GDP and population share (respectively of 24 and 36 percent).[27] However, these targets have never been achieved in practice and were both *de facto* suppressed, having disappeared from the annual Economic and Financial Documents since 2008. In real terms, capital expenditure in the period 2001-06 in fact increased in the Centre-North and decreased in the South, rather than the other way around.[28]

Academics and policymakers have argued that the result of this favourable allocation of public capital expenditure in the Centre-North has been the use of regional policy resources to compensate for a lack of mainstream resources investments in the *Mezzogiorno*, with the consequence that regional policy in the South has ended up financing investments that in the remainder of the country are undertaken via mainstream capital public spending resources, and which results in a loss of additionality with regard to Cohesion policy.[29]

[25] *Indagine conoscitiva sull'efficacia della spesa e delle politiche di sostegno alle aree sottoutilizzate*. Commissione V, Bilancio, tesoro e programmazione. Indagine conoscitiva, 27 January 2010.

[26] Since the Economic and Financial Programming Document for the period 2002-2006. Ministero dell'Economia e delle finanze (2001) *Documento di programmazione economico-finanziaria 2002-2006 (approvato dal Consiglio dei Ministri del 16 luglio 2001)*, p. 4.

[27] Ministero dell'Economia e delle finanze (2002) *Documento di programmazione economico-finanziaria per gli anni 2003-2006 presentato dal presidente del Consiglio dei Ministri Silvio Berlusconi e dal Ministro dell'Economia e delle Finanze Giulio Tremonti*, Deliberato dal Consiglio dei Ministri il 5 luglio 2002, p. 122.

[28] Viesti, G. (2009) *op.cit.*, p. 54.

[29] Viesti, G. (2009) *op. cit.*, p. 55; *Indagine conoscitiva sull'efficacia della spesa e delle politiche di sostegno alle aree sottoutilizzate*. Commissione V, Bilancio, tesoro e programmazione. Indagine conoscitiva.

Similar issues have been raised about the distribution of current (rather than capital) expenditure which, it is argued, also has an anti-redistributive effect in the country (though this is a complex issue and one that would require more detailed examination).[30]

An opposite example to the Italian case is represented by the experience of **Sweden**. On the one hand, equal living standards and essential service provision across the country are ensured via important equalisation mechanisms,[31] social security transfers and universal healthcare provision. On the other hand, the coordination of regional policy (both EU co-funded and domestic) is ensured through a number of cross-sectoral and cross-level coordination mechanisms, as discussed in Section 4, and regional policy intervenes specifically to allow regions to grow while fully exploiting their differentiated potential.[32]

In **Germany**, the most significant programme of spatially-targeted capital spending is the Solidarity Pact (*Solidarpakt*). This provides the Eastern *Länder* additional funding for capital spending and also finances a range of federal interventions exclusively available to these *Länder* in fields such as infrastructure networks, business support and training. It was set up in 1995, initially for a period of ten years, with the aim of closing the gap in terms of the quantity and quality of core infrastructure between the old and new *Länder*. A second Solidarity Pact was then agreed for the 2005-19 period, with total funding amounting to €156 billion, including the following.[33]

- €105 billion of additional federal funding to the Eastern *Länder* (*Sonderbedarfsbundesergänzungszuweisungen* - SoBEZ), mainly for infrastructure investments. Funding will gradually fall from €10,533 million in 2005 to €2,096 million in 2019.

- €51 billion of additional federal funding, to be spent by federal agencies, aimed at improving competitiveness, employment and infrastructure in the new *Länder*. This includes additional federal resources allocated to the new *Länder*, for regional investment programmes that are also available to the Western *Länder*, for example the Joint Task for the Improvement of Regional Economic Structures (*Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'* or the

[30] Viesti, G. (2009) *op. cit.*, pp. 68-91, argued that of a national average of per capita current spending of €14,141, the 8 Mezzogiorno regions account only for an average of €11,253 and the total public spending (capital + current) of the enlarged public sector of the Mezzogiorno represents only 28.3 percent of the total, against a population share of 35.9 percent. See also Ministero dello Sviluppo Economico (2008) *Rapporto Annuale 2007 del Dipartimento per le Politiche di Sviluppo e di Coesione sugli interventi nelle aree sottoutilizzate*, Rome, 2008, p. 118; and Ministero dell'Economia e delle Finanze (2006) *Rapporto Annuale 2005 del Dipartimento per le Politiche di Sviluppo e di Coesione sugli interventi nelle aree sottoutilizzate*, Rome, 2005, p. 167.

[31] Such as the equalisation grant for municipalities and county councils, a grant for pharmaceutical benefits for county councils and several targeted grants to municipalities.

[32] OECD (2010) *Territorial Reviews: Sweden*, p. 147. It should be noted, however, that according to OECD data, territorial disparities in terms of GDP per capita in this country have widened, and Sweden's economy is the second most concentrated among OECD countries.

[33] Source: Bundesministerium des Innern, http://www.bmi.bund.de/cln_156/SharedDocs/Standardartikel/BODL/soliII.html?nn=790654 .

GRW), the Investment Allowance and federal schemes in support of innovation and enterprise.[34]

The Eastern *Länder* are responsible for allocating the SoBEZ funds, and they have been obliged, since 2002, to provide an annual progress report to the *Bund-Länder* Financial Planning Council (*Finanzplanungsamt*), with information on the use of these funds, progress in reducing infrastructure gaps, and the *Land*'s fiscal situation. This monitoring has highlighted that, despite the remit of the Pact, most of the beneficiary *Länder* have in fact used the Solidarity Pact resources to fund current expenditure, rather than investments.[35] This is largely because of the considerable fiscal pressures faced by the eastern *Länder*, whose weak tax bases make them dependent on transfers and not able to cope with the extensive spending obligations relating to the provision of public services and staff wages.

Nevertheless, as the overall level of net capital transfers from West to East (including social transfers) remains considerable - c. €70 billion in 2004, compared to the €100 billion of the mid 1990s peak[36] - this has prompted considerable debate over the necessity of re-thinking the support to the Eastern *Länder*, especially in the context of the current public expenditure restrains. The progressive phasing-out of the Solidarity Pact is one outcome of this debate, but one which is not without challenges. In order to compensate for this reduction in assistance, the Eastern *Länder* will need to raise the level of their own resources, for example by encouraging stronger business activity and thus higher business tax receipts, but this may be hampered by the persisting relative weakness of the Eastern *Länder* economies.

The issues discussed above lead to a fundamental consideration with respect to the role and potential of regional policy: one may argue that this policy can only deliver growth and growth-induced catching-up if other, mainstream policies pave the ground for this goal, for instance ensuring that adequate service provision is maintained in the lagging territories through the use of mainstream resources.[37] This is the view expressed in **Italy** in a recent seminar by the Governor of the Bank of **Italy**, according to whom:

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[34] For a more detailed description of these schemes, see Davies S. (2010) ‘Fiscal Consolidation and Budget Cuts: Regional Policy Developments in Germany’, in EPRC (2010) *Regional Policy and Recovery from the Economic Crisis: Country Reviews*, EoRPA Paper 10/2, EPRC, Glasgow, pp. 75-94.

[35] Bundesministerium für Verkehr, Bau und Stadtentwicklung (2005) *Jahresbericht zum Stand der Deutschen Einheit*, Berlin.

[36] European Commission, Directorate-General for Economic and Financial Affairs (2007) ‘Country Study: Raising Germany’s Growth Potential’, *European Economy Occasional Papers*, no. 28, Brussels, February 2007, p. 14. See also Jansen H. (2004) ‘Transfers to Germany’s eastern Länder: a necessary price for convergence or a permanent drag?’, *ECFIN Country Focus*, 1, 16, 8.10.2004.

[37] As noted by the current head of the Department for Development Policies and Economic Cohesion, ‘the national commitment for the development of the South, whilst recognised in the economic objectives and documents, has not been reinforced (*avvalorato*) by institutional and administrative practices aimed at integrating in the overall economic policy the need of lagging areas and at binding them to qualitative targets. Some national policies with relevant regional effects, such as education, justice, competition, security and the improvement of public administration, should support the goals of regional policy and be strengthened in these territories’. Mancurti, A. (2010) *Testimonianza all’indagine conoscitiva Commissione V Bilancio, Tesoro e Programmazione, resoconto stenografico*, seduta di mercoledì 27 gennaio 2010, p. 5.

> *Regional policies can integrate the available resources, allowing an increased territorial concentration, contrasting negative externalities and strengthening the positive ones. But they cannot substitute the good functioning of ordinary institutions. The route of regional policies is not the main route (*via maestra*) for closing the gap between Mezzogiorno and Centre-North. It is necessary to direct the commitment especially towards the general policies, which have objectives referred to the whole country, and concentrate on the environmental conditions that render their application more difficult and less effective in some areas.*[38](emphasis added)

These considerations echo a similar warning by the European Commission (DG ECFIN) that

> *[h]igh long-run growth requires an appropriate mix of national policies and conditions that remove impediments to accumulation and efficient allocation of resources. Such a mix includes macroeconomic stability, supportive institutions, the smooth functioning of markets, openness and other elements. Public investment programmes co-financed by EU Structural Funds are a significant ingredient to this panoply. However, their efficiency is conditional upon the implementation of national policies as evidenced by some striking differences in growth performance in the EU-15 despite similar relative magnitude in Structural Funds allocations.*[39](emphasis added)

2.4 Labour market regulation and functioning

One issue that has been discussed extensively over the past decade, again in **Germany** and **Italy**, is the question of whether the centralised approach to wage bargaining generates a structural disadvantage to businesses in the new *Länder*/South of **Italy** and a disincentive for firms to locate in these areas.[40]

In both countries, wage bargaining occurs at sectoral level so that sectoral agreements on wage increases and changes in working conditions apply automatically to all firms within the sector, regardless of their location, as long as they are members of the relevant sectoral employers' associations.[41] As there are differences in productivity levels between regions (e.g. due to differences in levels of skill, business capital, market access and public administration efficiency), it is argued that these higher – compared to productivity – costs in the lagging regions will disadvantage them. Firms will choose to locate in regions with higher productivity levels or better conditions where, given the same levels of salary, the

[38] Draghi, M. (2009) *Intervento di apertura del Governatore della Banca d'Italia Mario Draghi al Seminario 'Il Mezzogiorno e la politica economica dell'Italia'*, Rome, 26 November 2009, p. 6. Unofficial translation from Italian by the authors.

[39] European Commission, Directorate-General for Economic and Financial Affairs (2000) 'The EU Economy: 2000 Review', *European Economy*, 71, 2000, p. 204.

[40] OECD (2001) *Economic Survey: Germany*, Paris; Wurzel, E. (2001) The *economic integration of Germany's new Länder*, OECD Working Paper No. 307; OECD (2004) *Economic Survey: Germany*, Paris; OECD (2006) *Economic Survey: Germany*, Paris; European Commission (2002) *Broad Economic Policy Guidelines 2002*, European Economy No. 4, Directorate General for Economic and Financial Affairs; European Commission (2003) *Recommendation on the Broad Guidelines of the Economic Policies of the Member States and the Community (for the 2003-2005 period)*, Brussels, 24.4.2003, COM (2003) 170 final/2.

[41] In Italy, certain sectors and types of workers (e.g. temporary or occasional workers) are not covered by such collective bargaining.

cost of labour per unit produced is lower.[42] This has led to considerable debate about the opportunity to render wage bargaining more flexible to align wages to actual levels of productivity.

In **Germany**, the salaries of the Eastern *Länder* in 1990, when the German currency was unified, were about one third of those in the Western *Länder*.[43] Wage convergence was rapidly pursued.[44] Although not fully achieved – as "most of the new firms founded in East **Germany** after 1991 decided not to join the employers unions in order not to be covered by the initial wage agreements, and many other firms have simply violated the wage contracts with the tacit agreement of the unions, […or] went bankrupt and were founded again as new legal entities in order to circumvent the binding power of the collective wage contracts"[45] – the result has been a considerable misalignment with productivity.[46] This is thought to have had negative consequences for the eastern economies, having hampered employment growth, favoured out-migration, limited private investments and prevented productivity improvements.

As a response, a greater degree of flexibility has developed over the past decade in the wage-bargaining system in **Germany**, allowing firms to opt out of the centralised bargaining system by choosing not to join the sectoral employers' associations. The level of opt-outs is significantly higher in the new *Länder*, allowing firms in those locations to compensate for the less-favourable business conditions. In 2004, only 10 percent of companies and 30 percent of employees in the Eastern Länder were covered by collectively negotiated wages.[47]

In **Italy**, on the other hand, employers and employees have the possibility of resorting to 'integrative' contractual arrangements at the level of individual firms (*contrattazione aziendale integrativa*). However, this avenue can only introduce salary increases to the nationally agreed contracts, which acts as a strong disincentive for employers to sign

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[42] The other side of the coin should also be acknowledged, namely that national bargaining also has the effect of containing the increase of wages in the more productive parts of these countries (i.e. Western Germany and Centre-North Italy). See Casadio, P. (2009) *Contrattazione aziendale integrativa e differenziali salariali territoriali: informazione dall'indagine sulle imprese della Banca d'Italia*, in Cannari, L. (2009) *op. cit.*, p. 130.

[43] Sinn H. W. and Westermann F. (2000) 'Two Mezzogiorno', *CESifo Working Paper*, no. 378, December 2000, p. 16.

[44] Different studies emphasise different causes for this. Whilst Sinn H. W. and Westermann F. (2000, p. 20) point to the role of Western Trade Unions and Employers Associations in the 1991 wage negotiations, Davies S. and Hallet M. (2001, p. 24) identify three underlying political reasons: first, the initial optimism on the timetable of the Eastern *Länder* catching-up; second, the prevention of East-to-West migration; and, third equity considerations, according to which the same salary should be corresponded for the same job (not dissimilar to those which had led, in Italy, to the abolition of the so-called 'salary cages').

[45] Sinn H. W. and Westermann F. (2000) *op. cit.*, p. 20.

[46] *Ibid*, p. 16.

[47] H. Jansen (2004) 'Transfers to Germany's eastern Länder: a necessary price for convergence or a permanent drag?', *EcFin Country Focus*, 1, 16, 8.10.2004, p. 5. The same study notes that other factors too have contributed to the halting of wage convergence in recent years, notably the loss of power by the trade unions due to the high unemployment levels and the closure of vulnerable companies.

integrative contracts.[48] As a consequence, the use of integrative firm-based bargaining in Italy is limited,[49] especially in the *Mezzogiorno*.[50] This outcome has produced considerable debate about the necessity, in the view of many economists, to reduce wages in this area of the country to align them with productivity, also in the light of the lower real costs of living in the *Mezzogiorno* compared to the remainder of the country.[51] Nevertheless, views diverge both on the real extent of the disparity in costs of living[52] - given that most statistics consider the nominal cost differential between comparable services and products, rather than their effective attainment potential[53] - and on the effective utility of such a measure, which would essentially be aimed at improving the competitiveness of firms by lowering production costs (notably labour costs), rather than investing in factors that would improve their longer-term competitiveness and make the area more attractive as an investment location.[54] Alternative measures proposed include the introduction of minimum wages and the exemption of lower-end salaries from taxation, both of which would especially benefit the *Mezzogiorno*, because that is where the lower-paid employment is concentrated, as well as the irregular employment that such measures would aim to counteract.

Apart from the issue of national bargaining, the existence of a legally set minimum wage and the level at which this should be fixed have been subject to debate from a regional policy perspective. A considerable amount of literature has focussed on the impact of minimum salaries on growth and employment/unemployment,[55] including research on the spatially diversified effects of the minimum wage and the degree to which statutory minimum salaries should be diversified territorially to reflect different productivity levels and labour markets. A recent study by the European Commission has argued that, in **Poland**, for example, the nationally-set minimum wage is too high in lagging regions compared to the market-clearing level, with negative consequences for low-skilled workers

[48] Boeri, T. (2006) 'Per il Mezzogiorno, ma non solo per il Mezzogiorno', *L'industria*, XXVII, 1, 2006, pp. 103-106.

[49] Boeri, T. (2006) *op. cit.*

[50] Casadio, P. (2009) *op. cit.*

[51] Viesti in his book (2009, *op. cit.*) reports many of these, see pp. 181-185. The debate has included calls for the reintroduction of the so-called 'salary cages', abolished in 1969. See EoRPA Paper 09/3, p. 79.

[52] E.g. where nominal advantages in the cost of house renting in the Mezzogiorno are compensated by the lower quantity and quality of public services, such access to nurseries, adequate healthcare or schooling (see Viesti 2009, *op. cit.*, pp. 184-186).

[53] Bettio and Mazzotta make this point quoting the example of nursery costs whereby the average cost for a typical family of three is of €364 in the North, €280 in the Centre and €221 in the Mezzogiorno, but this measure does not take into account that the availability of nursery places is much more limited in the Mezzogiorno than in the rest of the country, close to only 1 percent in Apulia, Sicily and Calabria. A more accurate estimate of the cost of living, they argue, would take into account the cost necessary for the attainment of the same level of service. Bettio, F. and Mazzotta, F. (2009) 'Gabbie salariali? Meglio l'indennità locale', *Lavoce.info*, 20.11.2009.

[54] Viesti, G. (2009) *op. cit.*

[55] See Cahuc, P. and Michel, P. (1995) 'Minimum wage unemployment and growth', *European Economic Review*, 40, 7, pp. 1463-1482.

who are crowded out by better qualified workers.[56] This has prompted the OECD to call for a regional differentiation of the minimum wage in this country, based on local labour market conditions.[57] Similar debates occurred in the **United Kingdom** following the introduction of minimum wage in 1999.[58]

2.5 Welfare and social protection

Welfare and social protection spending and policies also present important implications for the development of lagging regions and their catching-up, because the expenditure for these areas affects different regions differently. Welfare and social protection spending typically includes pensions, unemployment benefits, invalidity payments, family allowances and housing benefits. The relative share of these different headings and the spatial distribution of spending vary depending on the economic policy choices and demographic and economic structure of each country. For example, in some countries spending for old-age pensions is likely to be concentrated in the most economically advanced regions, where employment has been traditionally high and employees have matured the right to pensions through their contributions, and lower in areas of high concentration of unemployment and irregular employment.[59] Accordingly, there may be tensions between the goals pursued by regional policy and the welfare system.

An illustration of the potential tension between regional policy and welfare spending can be found in **Poland**, where specific welfare provisions are in place for the support of farmers. These include support for farms that are not economically profitable, exemptions for farmers from income tax and most property taxes, and support for unemployed farmers (Farmers' Social Insurance Fund, KRUS). This fund supports c.1.5 million pensioners and entails a public expenditure estimated as equal to 1.2 percent of Polish GDP.[60] Because it

[56] 'As the minimum wage is above the market clearing level and employers tend to hire better-skilled workers in these circumstances […] workers with basic vocational education or less, account for almost three-quarters of all the unemployed, with the two-thirds of them who live in rural areas particularly susceptible to increased unemployment after the liquidation of state-owned farms', Narożny, M. (2006) 'High unemployment in Poland – not only a labour market problem', *ECFIN Country Focus*, III, 6, pp. 1-6.

[57] OECD (2010) *OECD Economic Surveys: Poland*, Paris, p. 81.

[58] Sunley, P. and Martin, R. (2003) 'The geographies of a national minimum wage: the case of the UK', in Martin, R. and Morrison, P. R. (eds.) (2003) *Geographies of Labour Market Inequality* (Routledge, London, 2003, pp. 208-233).

[59] For instance, with respect to Italy, the work by Staderini and Vadalà (2010) shows that because of the different demographic structure and social security contribution history of Mezzogiorno and Centre-North, the per capita expenditure on social security is higher in the North and Centre than in the Mezzogiorno (respectively €4,900 and €4,800, versus €3,600). At the same time, they point out that if one considers the entire primary expenditure net of social security, there appears a much more balanced picture, with the Centre leading with a spend of €5,500 per head, followed by the Mezzogiorno with €5,300 and by the North with €5,000. Staderini, A. and Valdalà, E. (2010) 'Bilancio pubblico e flussi redistributivi regionali', in Cannari, L. L. and Franco, D. (eds.) *Il Mezzogiorno e la politica economica dell'Italia*, Seminari e convegni, n. 4, giugno 2010, pp. 157-167. Although it should also be mentioned that in some countries, e.g. in France or the UK, there exists also a considerable phenomenon of pensioners' migration from congested and more expensive urban centres, to areas with higher quality and lower cost of living (e.g. the South West of England and Southern France).

[60] OECD (2010) *OECD Economic Surveys: Poland*, Paris, p. 42. Public resources cover 90 percent of the fund, the remainder is provided by the contributions by the circa 1.5 active ensured.

rewards unemployment in rural regions, rather than incentivising farmers to re-train and re-enter the labour market, a recent European Commission study has assessed the Fund as detrimental to the Cohesion policy goals of economic development and diversification of rural areas. The study notes:

> *KRUS is among the factors that tie people to low productive agriculture and subsequently de-activate them in relatively poor agriculture-dependent regions, thereby contributing to slower restructuring and growth in such regions. Ultimately, KRUS may be one of the causes of the persistency of regional income disparities. Poorer regions, with less demand for processed products and sophisticated services, offer fewer alternative job opportunities, thus creating an environment for inactivity and closing a vicious circle of low labour activity and slow growth.*[61]

These findings are echoed by the latest OECD Country Survey for **Poland**, according to which 'the overly generous social and taxation system for farmers (including KRUS for Pensions […]) means that huge rents are maintained that slow restructuring, inhibit labour mobility and waste labour resources'.[62]

2.6 Rural policy

The coordination between Cohesion policy and rural policy is particularly controversial in a number of countries, where the goals of Cohesion policy are considered to be hampered by spending under the Common Agricultural Policy (CAP) or domestic rural policies. Evidence of tensions between the two policies has been found in **Poland**.

In **Poland**, a high proportion of the population (17 percent) is employed in the agricultural sector, despite the declining contribution of agriculture to the economy.[63] However, the structure of Polish agriculture is considerably differentiated territorially. Whereas farming in the West is modern, productive and competitive, agriculture in the North is in need for restructuring after the collapse of State-owned farms that dominated this area, causing a considerable level of unemployment. Agriculture in the East suffers from weak infrastructure, low productivity and high hidden unemployment. As a result, agricultural structure is a key feature of the East/West territorial cleavage that informs Polish regional policy, and the diversification of the rural economy is a key goal of Cohesion policy in **Poland**. The new National Strategy for Regional Development prioritises support to rural areas with the lowest level of inhabitants, to strengthen their access to pro-development goods and services, and several Regional Operational Programmes co-financed by ERDF include priorities aimed at the diversification and development of rural areas. However, efforts made on this front are effectively counteracted by the direct subsidies provided to Polish farmers under the Common Agricultural Policy. These subsidies are easier for farmers to absorb than the support provided through the ERDF programmes, because they do not

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[61] Rutkowski, A. (2009) 'Impact of social expenditure on regional disparities in Poland', *ECFIN Country Focus*, 6, 3, pp. 1-6.

[62] OECD (2010) *OECD Economic Surveys: Poland*, Paris, p. 131. For a more detailed description of KRUS, see p. 42.

[63] In 1999, agriculture represented 5.4 percent of Polish GVA; in 2006 this had decreased to 4.3 percent. See Ministerstwo Rozwoju Regionalnego (2009) *Rozwój regionalny w polsce: raport 2009,* p. 9.

require the development of difficult applications and strategic plans. However, they are not conducive to restructuring and diversification. For most small Polish farms, these subsidies act as social transfers. Instead of facilitating the modernisation and growth of average farm size or economic diversification, they contribute – together with the social security system discussed above – to the petrification of existing structures.[64]

These policy tensions underlie problems with the coordination of the funds available under Cohesion policy and the CAP. Such coordination is particularly crucial given the importance of the latter in **Poland** and the rising urban/metropolitan versus rural gap. There are three facets to this issue: a dual governance framework for agriculture and rural policy that reflects the separation between Cohesion policy and CAP at European level; a different approach to, and understanding of, rural development in the two lead ministries; and, as a consequence of these two points, a poor degree of coordination between the two ministries.[65]

The transfer of the rural development instruments from Cohesion policy to the Common Agricultural Policy in the 2005 financial perspectives[66] has also limited the effectiveness of the actions implemented under Cohesion policy in integrating urban and rural areas.[67] According to the OECD, rural policy in **Poland** would benefit significantly from being framed not as an extension of agricultural policy but as a dimension of regional policy.[68] However, the two ministries hold different views, as the Ministry of Agriculture still has a predominantly sectoral, agricultural focus and subsidy-oriented approach (even if its perspective is considered to be 'broadening'). For instance, the Rural Areas Development Plan for 2004-2006, allocating EU (pillar II of CAP) and national resources, *de facto* concentrated its goals on farms and farmers rather than on inhabitants of rural areas in general.[69] The Ministry of Regional Development perceives rural development from a broader perspective, but the two seem to progress in parallel tracks.

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[64] Zawalińska, K. (2009) *Evaluation of rural development programs after Poland's accession to EU: regional CGE approach,* Paper prepared for presentation at the International Association of Agricultural Economists Conference, Beijing, China, 16-22 August.

[65] Domestically, the governance framework for rural development mirrors the separation, at the European level, between Cohesion policy and CAP (and that of the related instruments – ERDF and EAFRD). Thus, the Polish Ministry of Agriculture is responsible for the design and implementation of rural development strategies and for the implementation of CAP, whilst the Ministry of Regional Development is in charge of Cohesion policy. Coordination between the two has been limited. Moreover, whilst the ERDF Regional Operational Programmes are managed by regional self-governments (several of which include rural development priorities, as above noted), it is the Ministry of Agriculture that manages a single, sectoral Operational Programme for Rural Development funded by EAFRD, which is implemented in part through its regional agencies (ARMiR). This results in a complex, and not very coordinated, dual-governance framework in the regions.

[66] The Council of the European Union (2005) *Note from Presidency to the European Council. Financial Perspectives 2007-2013. CADREFIN268,* Brussels 19 December 2005, 15915/05.

[67] Ministerstwo Rozwoju Regionalnego (2010) *Poland Strategic Report 2009: National Strategic Reference Framework*, p. 16.

[68] OECD (2008) *Territorial review: Poland*, p. 204.

[69] Bułkowska, M. (2007) 'Ocena realizacji programu PROW w Polsce w latach 2004-2006', in *Roczniki Naukowe*, Vol. IX, No. 2.

Concern over this somewhat artificial divide between regional policy and rural policy is echoed in other countries (e.g. Austria and the UK), where the separation of the two policy areas at EU and domestic levels, coupled with the requirements for ensuring that there is no double-funding under the EAFRD and ERDF, has led to an emphasis on differentiation rather than coordination.

2.7 Transport infrastructure investments

A further policy with important implications for regional development and catching-up is transport policy. Tensions between the two policies have been noted in **Sweden**, where equalisation mechanisms exist to ensure that citizens have access to an even provision of public services and equal living standards irrespective of where they live. Swedish regional policy is growth-oriented and operates in all regions, with the goal of ensuring that all regions contribute to national growth according to their own potential (thus not aiming to achieve the same level of growth in all regions). The provision of transport infrastructure is particularly relevant to both goals, given the peripherality and harsh climate of the Northern regions, which make them less connected with international markets and less interconnected, and the more general lower-than-average accessibility of many Swedish regions compared to OECD countries.[70] However, research by the OECD highlights that for the goal of regional growth, infrastructure policy should be more closely integrated with other sectoral policies as part of a coherent regional development strategy, given that transport infrastructure investments deliver growth only in the presence of positive externalities.[71] It is argued that transport infrastructure alone has little impact on regional growth – and indeed could even be detrimental - unless it is associated with investments in human capital and innovation.[72] In **Sweden**, particular potential in this respect was noted with regard to closer collaboration among relevant authorities (at all levels) in the fields of transport, housing and spatial planning policy.[73]

Such considerations on the need to integrate infrastructure in the wider policy framework are also apparent in Italy. The Italian government has both carried out a reorientation of domestic regional policy in favour of strategic infrastructure investments (with the Strategic Infrastructure Fund) and announced a further such reorientation in the

[70] Many regions have poorer (in comparison to other OECD regions) accessibility to international markets (except Stockholm and the south of the country), and many also have lower motorway density (except Östra Mellansverige, which is the east of the country). In addition, intra-regional connections remain somewhat weak in many northern areas.

[71] OECD (2009) *Regions Matter. Economic Recovery, Innovation and Sustainable Growth*, Paris, p. 57.

[72] The 'leaking by linking' phenomenon, whereby well-intentioned infrastructure projects eventually exacerbate brain drain, because mono-sectoral policies fail to enhance the overall business and living environment. OECD (2009) *ibid*.

[73] OECD (2010) *Territorial Reviews: Sweden*, pp. 13-14; Tillväxtverket (2010) *'Tillväxtfakta, Så växer Sverige och dess regioner'*, April, pp. 121, 124 & 125.

forthcoming months.[74] What this will entail in practice and how this reorientation will be coordinated with the strategy of the current NSRF are not yet known.

[74] See Polverari L (2010) 'Policies in Flux: Regional Policy Developments in Italy, 2009-2010, in in EPRC (2010) *Regional Policy and Recovery from the Economic Crisis: Country Reviews*, EoRPA Paper 10/2, EPRC, Glasgow, pp. 115-137.

3. THE INTERRELATIONSHIP BETWEEN COHESION POLICY AND DOMESTIC REGIONAL POLICY

Having reviewed the broader policy context for the implementation of Cohesion policy, the next stage is to focus the analytical lens of this paper on the relationship between domestic regional policies and Cohesion policy (see Table 2 below). Whether these policies contribute to the same goals depends on the degree of integration or complementarity that exists, both strategically and spatially, between the two sets of policies.

Table 2: Main components of domestic regional policy

Country	Domestic regional policy measures
Austria	Economic development strategies of the *Länder* + federal sectoral policies ('broad' regional policy)
Finland	Regional Development Act (2002 + subsequent revisions), National Regional Development Strategy 2020; Regional Cohesion and Competitiveness Programmes (KOKO), Centre of Expertise Programme (+ 'broad' regional policy, i.e. public services, income transfers, infrastructure investments and taxation)
France	*Contrats de Projéts État-Régions* (CPER), Regional Policy Grant (PAT, *Prime d'aménagement du territoire*), SME and small firm regional aids, Rural Excellence Poles, Site/Territorial Contracts, special support for Corsica and the Outermost Regions (+ 'broad' regional policy, e.g. Competitiveness Poles, Research and Higher Education Poles)
Germany	Regional Joint Task (*Gemainschaftsaufgabe*), Investment Allowance (*Investitionszulage*), Solidarity Pact (which funds various federal instruments for the Eastern *Länder*) (+economic development strategies of the individual *Land* governments, financial equalisation mechanism)
Ireland	No explicit regional policy, only economic development policy
Italy	Fund for Underutilised Areas (Fondo per le Aree Sottoutilizzate, FAS) and the related programmes and framework programme agreements, regional aid schemes (+ economic development strategies of regions and national industrial innovation projects)
The Netherlands	Peaks in the Delta, support to disadvantaged urban areas, low-key regional aids (Investment Premium, IPR)
Poland	National Development Strategy (NDS) 2007-15 and the related domestic framework agreements between government and self-government authorities (mostly Cohesion policy co-financed), employment, investment and FDI grants, Special Economic Zones (SEZ) tax relief.
Spain	Inter-territorial Compensation Fund (XX) and Regional Investment Grant Scheme (*Incentivos regionales*)
Sweden	Regional Growth Policy (2008 Budget Bill), Development and Regional Growth Programmes, various regional aid schemes (regional investment aid, regional grant for business development, transport grant, employment grant, reduction of social security contribution) and policies for different types of area (sparsely-populated areas (regional aids), rural (national rural development strategy) and urban (national strategy for regional development).
United Kingdom	Until recently Grant for Business Investment (formerly Regional Selective Assistance), plus regional economic strategies of English regions and devolved administrations (economic development)

Source: EoRPA country research. Also, EPRC and EUROREG (2010) *The Objective of Economic and Social Cohesion in the Economic Policies of Member States. Draft Final Report to the European Commission, Part II: Country Reports*, September 2010.

Domestic regional policies generally include both ‘narrow’ regional policy, i.e. strategies and interventions targeted to specific regions or territories, and ‘broad’ regional policy, consisting of the territorial differentiation of wider policies for economic development, competitiveness and growth. In a few countries, notably **Austria**, **Ireland** and the **United Kingdom**, narrow regional policy is not prominent, and it is predominantly the goal of growth and competitiveness across all regions that is pursued through domestic economic policy (at both national/federal and meso-level).

As summarised in Table 3,[75] domestic ‘narrow’ regional policies have different goals in different Member States. Notwithstanding diversity in the objectives pursued, domestic regional policies are widely considered to be operating with a great deal of strategic coherence with Cohesion policy.

Table 3: The goals of (domestic) regional policy in selected European States

	National growth	Equal living conditions	Spatially balanced economic development	Regional economic development
All regions	Sweden, Norway, Finland, France, Austria, Netherlands, Ireland, UK, Portugal, Poland	Norway, Finland, Sweden	France, Ireland, Sweden, Norway, Finland,	Austria Portugal, Poland, France, UK
Structurally weak regions		Norway, Sweden, Finland	Germany, Spain, Italy	Germany, Spain, Italy

Source: Davies, S. (2006) *Territory, Space, Geography: Where is the Focus of Regional Policy in Europe?*, EoRPA Paper 06/5 prepared for the 27th meeting of the EPRC Regional Research Consortium of EU Member States and Norway, Ross Priory, Loch Lomondside, 8-10 October 2006, EPRC, Glasgow.

Two types of strategic relationship can be identified between domestic ‘narrow’ regional policy and Cohesion policy: integration or coordination. Perhaps unsurprisingly, domestic and EU regional policies do not operate in totally separate frameworks in any of the Countries reviewed.

The two policies are *integrated* in several Member States. This is either because Cohesion policy has been instrumental in helping define current domestic regional policy goals (as in **Poland** and **Spain**), because it is largely subsumed within the domestic policy framework (as

[75] A number of States (Germany, Spain and Italy) see the goal of domestic regional policy primarily in terms of assisting certain regions to overcome their structural socio-economic weaknesses, while others set multiple goals for regional policy. In some countries (Austria, The Netherlands, Poland, Portugal and the UK), regional policy has the dual goals of raising national economic growth and supporting economic development in all regions. In France and Ireland, the national growth goal is combined with the aim of achieving a more geographically balanced distribution of economic activities. Both of these goals are shared by other States (Norway, Finland and Sweden), but a third objective is added, namely to ensure equal living conditions in regions facing specific challenges. Davies, S. (2006) *Territory, Space, Geography: Where is the Focus of Regional Policy in Europe?*, EoRPA Paper 06/5 prepared for the 27th meeting of the EPRC Regional Research Consortium of EU Member States and Norway, Ross Priory, Loch Lomondside, 8-10 October 2006, EPRC, Glasgow.

in **Germany**), or because of an explicit effort to merge the two policies into a coherent unitary framework (as in **Italy** and **Sweden**, through their NSRFs).

In a second group of countries, the two policies are *coordinated*. Goals are either mirrored or matched, and there is some degree of cross-financing (**Finland**, **France**, **Netherlands**).

In those countries that do not have, at present, a strong explicit regional policy - **Austria**, **Ireland** and the **United Kingdom**[76] - regional development policy is largely synonymous with economic development policy. In these cases, Cohesion policy can be described as *complementary*, in the sense that it is coordinated with domestic policy but focuses on a smaller part of the domestic economic development agenda. In these cases, Cohesion policy generally becomes subservient to the domestic policy streams to which it contributes, and it is often viewed as a useful source of top funding.

Table 4: Relationship between domestic regional policy and Cohesion policy in selected countries

Country	Policy content	Comment
Austria	Complementary	Coherence in terms of objectives. Implementation of Cohesion policy subsumed within (and co-funds) existing implementers of business aid and projects.
Finland	Coordinated	The two policy fields are coordinated in terms of policy cycle and substance. The focus of regional policy is on national policies.
France	Cooordinated	Cohesion policy co-funds domestic regional policy through the CPERs, with common strategic orientations and implementation systems.
Germany	Integrated	Coherence in terms of objectives. Cohesion policy has served to enlarge and co-fund the policies and strategies of the federal and *Land* governments.
Ireland	Complementary	Cohesion policy programmes have a narrower, targeted focus, separated from large-scale domestic policy plans.
Italy	Integrated	Cohesion policy and domestic regional policy 'merged' into a unitary regional policy through the 2007-13 National Strategic Document.
Netherlands	Coordinated (except in the North, where integrated)	Cohesion policy considered to be a complementary contribution to national policy (Peaks in the Delta), which has a different territorial focus. Only in the North are the two strands of policy merged in the *Koers Noord* programme.
Poland	Integrated	Most domestic policies co-funded through Cohesion policy. Increasing integration in terms of implementation.
Spain	Integrated	Cohesion policy is channelled through domestic regional policy programmes.
Sweden	Coordinated	Cohesion policy represents a substantial part of financing regional development projects. The NSRF is the overarching framework for all regional policy intervention.
United Kingdom	Complementary	Coherent objectives. Implementation systems largely separate, but with close links.

Sources: Bachtler J. *et al* (2009) *Ex post evaluation of Cohesion policy programmes 2000-2006 co-financed by the ERDF (Objective 1 and 2). Work Package 11: Management and implementation Systems for Cohesion policy, Final report for the European Commission*, EPRC, Glasgow; EPRC and

[76] The United Kingdom has had historically a strong regional policy.

EUROREG (2010) The Objective of Economic and Social Cohesion in the Economic Policies of Member States. Draft Final Report to the European Commission, Part II: Country Reports, September 2010.

There are a number of reasons for this high degree of strategic fit between Cohesion policy and domestic regional policies.

- First, in countries with considerable portions of territory covered by the Convergence Objective, Cohesion policy has played an important role in setting the agenda for domestic regional policy for the current period, and the two policies have become almost synonymous. In some cases, domestic regional policy has been subsumed within the framework of the Cohesion policy programmes (**Spain**, **Poland**). Further, where there is little domestic funding available (for example, during the economic crisis), this limits scope for autonomous domestic public investment priorities.
- Second, as discussed in more detail in Section 4, Member States have increasingly taken steps to ensure strategic integration between EU and domestic priorities and spending. In previous programme periods, this was often at the level of fields of intervention or specific instruments, rather than at a strategic level (e.g. in **France**, **Germany**, **Spain**).[77] For the preparation of the current generation of programmes, on the contrary, coordination has increasingly featured in Cohesion policy programme preparation. For instance, in the **United Kingdom**, policymakers in the devolved administrations of Scotland and Wales were able to draw on a host of newly developed domestic strategies during the drafting of the 2007-13 Operational Programmes.[78]
- Third, cross-financing arrangements between the two policy areas are widespread. For these to succeed, the two sets of policies must be strategically aligned, as two sources of funding must dovetail to support common projects. In a number of cases, Cohesion policy programmes and domestic regional policy instruments interact so closely that projects are passed from one to another, and domestic policy schemes can operate almost as a back-up or safety nets for riskier projects. One example is the domestically-funded ‘additionality’ programme in Burgenland **(Austria)**, which mirrors the *Land* Convergence programme. Funded from national and regional sources, this parallel programme allows for an interchange of projects with the Convergence Operational Programme. For example, lagging projects might be transferred from the Convergence programme to the additionality programme, so as not to lose resources via decommitment, and be replaced by soundly performing

[77] Bachtler, J., Polverari, L., Oraže, H., Clement, K. and Tödtling-Schönhofer, H. with Gross, F. McMaster, I. and Naylon, I. (2009) *Ex post evaluation of Cohesion policy programmes 2000-2006 co-financed by the ERDF (Objective 1 and 2). Work Package 11: Management and implementation Systems for Cohesion policy, Final Synthesis Report,* European Policies Research Centre and Metis, July 2009, p. 7.

[78] Although this has also been criticised, as it has been suggested that it may have led to political tensions associated with a move to a more top-down approach, with potentially less local input. See Campbell, J. and McSorley, L. (2008) ‘EU regional policy after 2006: Will Scotland Notice the Difference?’ *European Planning Studies* 16:6, pp. 877-888.

projects from the additionality programme. Riskier projects are likely to be funded under the domestic programme only.[79]

- Fourth, for the 2007-13 period, Structural Funds programmes have been developed to adhere closely to the priorities and goals of the Lisbon agenda. This has been enforced by 'earmarking' requirements, which ensure that a high proportion of expenditure (at least 60 percent in Convergence regions and 75 percent in RCE regions) is allocated to 'Lisbon-type' activity. At the same time, domestic policy has also been steered in this direction under the National Reform Programmes.
- Last, Member States are directly involved in setting the guidelines and regulations that govern Cohesion policy programmes and in setting their priorities for each programme period. Indeed, support for efforts to use the Lisbon agenda as a framing device for Cohesion policy interventions in 2007-13 is partly due to the existing orientation of Member States' domestic regional policy towards RTDI.80

Nevertheless, some tensions between the two sets of policies can be identified. These relate to: (i) the spatial focus of policy; (ii) the allocation of financial envelopes; and (iii) management and delivery arrangements.

The interrelationship between Cohesion policy and domestic regional policy may be complicated by differences in spatial coverage or territorial focus. In **Italy**, for instance, the National Strategic Document (NSD) has a territorial focus broader than that of Cohesion policy, in that it targets resources particularly to the development of the *Mezzogiorno* (a larger aggregate than the Convergence region eligible for Cohesion policy). This resulted in a complicated architecture foreseen in the NSD of Convergence National Operational Programmes co-funded by the Structural Funds (for the Convergence regions) and *Mezzogiorno* FAS Programmes only funded with domestic resources for the entire *Mezzogiorno*.[81] In **the Netherlands**, the focus of domestic regional policy is on four national centres of potential, rather than on the less-developed north of the country.[82] In both cases, these national choices complicated the negotiations with the Commission at NSRF/programme preparation stage.

As far as financial receipts are concerned, as was illustrated in Table 1, in non-Convergence countries, Cohesion policy is an increasingly minor proportion of spend. For this reason, it is increasingly viewed as an adjunct to domestic policy and the Structural Funds and is increasingly 'subservient' to these initiatives. In this situation, the domestic regional policy agenda is expected (by policymakers) to dominate, both in terms of content and rules and

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[79] EPRC and EUROREG (2010) *The Objective of Economic and Social Cohesion in the Economic Policies of Member States. Draft Final Report to the European Commission, Part II: Country Reports*, September 2010, pp. 4-9.
[80] *Ibid*.

[81] Although the latter were subsequently abolished due to cuts in FAS funding. See Polverari L (2010) 'Policies in Flux: Regional Policy Developments in Italy, 2009-2010, in in EPRC (2010) *Regional Policy and Recovery from the Economic Crisis: Country Reviews*, EoRPA Paper 10/2, EPRC, Glasgow, pp. 115-137.

[82] EPRC and Euroreg (2010) T*he Objective of Economic and Social Cohesion in the Economic Policies of Member States. Draft Final Report to the European Commission, Part II: Country Reports*, September 2010, pp. 165-175.

procedures. Where it is perceived that the EU agenda dominates or subverts domestic spending priorities because of co-funding requirements, it can cause concern that the 'tail is wagging the dog', particularly when associated with more onerous control procedures. For example, in England, the Structural Funds represent only a very small part of the total budget of the Regional Development Agencies (RDAs) (e.g. 10 percent in North East England). As a result, the organisational changes required within the RDAs when they inherited management and implementation responsibilities for the Structural Funds at the start of the 2007-13 period were viewed from this critical perspective.[83]

Lastly, as far as policy management and delivery are concerned, where domestic regional policy and Cohesion policy operate in a subsumed or coordinated manner,[84] the programming, timing and delivery of one policy area may have been adapted significantly to be coherent with the other. The three main areas where tensions have arisen comprise: (i) perceived inflexibility of one policy area in comparison with the other; (ii) additionality; and (iii) specific management and implementation issues.

The perceived inflexibility of one policy area (usually Cohesion policy) in comparison with the other was a frequently cited issue during the EoRPA research. Riskier projects may be routed to receive support from domestic sources instead. As previously mentioned, in Burgenland **(Austria)**, two parallel programmes (one Cohesion policy, and one domestic) are used to interchange projects, with the less risky and more soundly performing ones being transferred to the Cohesion policy programme. Similarly, in **the Netherlands**, a number of separate, but similar, policy programmes were implemented in addition to the Structural Funds rather than being added to the Operational Programme budgets as co-funding, due to the control pressures experienced under the Cohesion policy programmes.

Additionality is one of the basic principles of Cohesion policy, but compliance with this requirement appears problematic, both in countries with significant proportions of Convergence funding and in countries where Cohesion policy receipts (under the RCE Objective) are marginal. In the former case, evidence from past studies suggests that despite the requirement of the additionality principle, funding from Cohesion policy can lead to crowding-out of national expenditure.[85] A study by Ederveen *et al* estimated that in Objective 1 (now Convergence) areas, 'a region typically forgoes 50% of national regional aid once it becomes eligible for Objective 1 support. This boils down to an average

[83] Vironen, H. (2008) 'Getting underway – The first phase of implementing the 2007-2013 programmes. Review of Programme Developments: Autumn 2007 – Spring 2008', *IQ-Net Review Paper No. 22(1)*, EPRC, Glasgow.

[84] Taylor, S., Bachtler, J. and Rooney, M. L. (2000) 'Implementing the New Generation of Structural Funds Programmes: Project Development, Appraisal and Selection', *IQ-Net Thematic Paper*, 7(2), 2000, EPRC, Glasgow. See also Ferry, M., Gross, F., Bachtler, J. and McMaster, I. (2007) 'Turning Strategies into Projects: The Implementation of 2007-13 Structural Funds Programmes', *IQ-Net Paper* 20(2), 2007, EPRC, Glasgow.

[85] Wostner, P. and Šlander, S. (2009) 'The effectiveness of EU Cohesion Policy Revisited: Are EU Funds really additional?', *European Policy Research Paper*, *69*, EPRC, Glasgow.

crowding out of €0.17 of cohesion support per €1 of cohesion policy'.[86] In RCE regions, the institutional relationship between Cohesion policy and domestic regional policy can exacerbate the difficulties of ensuring that Cohesion policy funds are truly additional. For instance, questions have been raised in **Ireland** about how best to ensure the additionality of the funds, given the reduced levels of Cohesion policy funding and Ireland's centralised system for the disbursal of funding. As EU funds have declined, questions have been raised about the visibility of EU-funded operations, as some argue they are becoming 'lost' among the exchequer-funded activities administered by the same departments and agencies.[87]

Additionality is more difficult to ensure at a time when domestic public sector budgets are increasingly under pressure. The Italian 2009 Strategic Report mentions a loss of additionality of c. 15 percent compared to the level established *ex ante*, due largely to the cuts and reallocations of the FAS fund and to the deteriorating macro-economic context.[88] In this light, questions have been raised about the most appropriate method that should be used to verify compliance, for instance whether to link the calculation of domestic co-financed resources to GDP (so as to automatically discount cyclical fluctuations). [89]

Lastly, tensions in approaches to management and implementation have also been mentioned with regard to specific aspects of management and implementation.

- Problems have arisen where domestic regional policy programmes and Cohesion policy programmes run according to different timetables. For example, in England, the RDA Single Programme operated on a financial year (April-April), while the ERDF programmes operate on a calendar-year basis. This increases complexity when trying to meet spending targets, as the domestic regional policy resources are the major source of co-funding.

- Although regional policy may be closely integrated with Cohesion policy at strategy level (through the NSRF), they are sometimes separated in implementation. In **Sweden**, for example, even when Regional Growth and Cohesion policies work closely together during programme development phases, implementation is often problematic. Also, while cross-sectoral coordination and working practices are considered to perform well, particularly in the northern regions that are used to working together, it sometimes becomes a difficult issue in newly created regions (i.e. in the context of the Competitiveness and Employment Objective, which now covers the entire country).

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[86] Ederveen, S., Gorter, J., De Mooij, R. and Nahuis, R. (2003) 'Funds and Games. The Economics of European Cohesion Policy', *ENEPRI* (European Network of Economic Policy Research Institutes) *Occasional Paper*, 3, October 2003, p. 41.

[87] Moylan, K. (2009) *The Future of EU Cohesion Policy and its Implications for Irish Regional Policy*, Paper presented at the Regional Science Association International Conference, Limerick, Ireland 3 September 2009, p. 6.

[88] Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica, *Rapporto Strategico Nazionale 2009*, December 2009, p. 24.

[89] See also: CSIL (2010) *Impact of Additionality on the Real Economy of the EU Member States: Open questions, some facts and a review of the literature, Final Report to DG Regional Policy*.

Overall, however, the main problem that affects the relationship between Cohesion policy and domestic policies as far as implementation is concerned relates to the perceived lack of proportionality of Cohesion policy implementation arrangements, which is exacerbated by their lack of coherence with domestic administrative procedures (for instance, in the field of audits).[90] Cohesion policy is often perceived to place undue emphasis on formal compliance, and this contrasts with efforts made domestically to increase results-orientated policy delivery. The formalistic approach adopted by DG Regio to approving the management and control systems are particularly indicative of this contradiction.

[90] Davies, S., Gross, F. and Polverari, F. (2008) 'The Financial Management, Control and Audit of EU Cohesion Policy: Contrasting Views on Challenges, Idiosyncrasies and the Way Ahead', *IQ-Net Thematic Paper* 23(2), EPRC, Glasgow.

4. COORDINATION INITIATIVES AND FRAMEWORKS

As discussed above, there is a great deal of coordination between domestic regional policy and Cohesion policy. In some cases, this goes beyond regional policy to encompass the wider set of policy areas. EoRPA country research has highlighted the different measures and mechanisms that Member States use to secure coordination between different policies. These are both ‘institutional’ and ‘strategic’ in nature.

- The institutional measures include: (i) the coordination of different policies via either long-standing institutional arrangements (as in **Austria**, **Germany** and **France**) or recent government reforms (as in **Finland** and **Sweden**); (ii) the targeting of increased cross-sectoral integration at the regional level with a reorganisation of functions at this level (in **Finland**);, and (iii) the achievement of increased integration between domestic and EU co-funded regional policy through increased operational integration at the level of policy instruments (in **France**).

- The strategic measures comprise: (i) the coordination of domestic and EU-co-funded regional policies at national level through the NSRF (for instance in **Sweden** and **Italy**); (ii) the integration of the regional dimension in sectoral policies through the spatial planning process (notably in **Poland**, **Austria** and **Wales**); and (iii) the coordination of regional policy with wider economic development policies at the regional level (as in **England**, **Italy**, **Finland**, **Spain** and **Sweden**).

4.1 Institutional coordination arrangements

The ÖROK (Austrian Conference on Spatial Planning) is perhaps the classic example of a long-standing institutional arrangement supporting multi-level, cross-sectoral coordination (for regional policy). As the traditional arena for vertical coordination between the *Bund*, the *Länder* and the Austrian municipalities, it has also increasingly become an arena for cross-sectoral coordination, not least through the ongoing STRAT.ATplus information and exchange process, linked to the Austrian NSRF (STRAT.AT, which was drafted by ÖROK).

A similar long-standing coordination within the field of regional policy – i.e. between domestic and EU co-funded regional policy - exists in **Germany**, through the Regional Joint Task political committee and technical sub-committee, which are made up of federal and *Land* representatives, and the Conference of Regional Ministers (*Regionalministerkonferenz*). Cross-sectoral coordination with other policies is also organised through the various plans and strategies of federal, *Land* and local governments.

Box 2: ÖROK and STRAT.ATplus

Founded in 1971, ÖROK manages a network of all relevant federal and regional bodies involved in regional policy, regional development and spatial planning, both in the domestic and EU contexts. ÖROK was set up as a joint initiative by the federal and *Land* levels together with the Austrian municipalities as a compromise solution to coordination, because attempts to create more traditional models for coordination between the federal and *Land* levels (e.g. a federal-level framework) had failed.

In broad terms, the tasks of ÖROK include the coordination of policy design and facilitation of discussions on spatial matters between the federal level (e.g. sectoral ministries) and the *Länder*. The tasks are set out in the body's governing rules of procedures, but there are also annual or multi-annual work programmes (*Arbeitsprogramme*) for additional tasks. For instance, the medium-term work programme for 2006-2008 focused on the development of spatial scenarios for **Austria** for 2030. In addition, ÖROK publishes a variety of documents in a special publications series (the ÖROK *Schriftenreihe*), reports on spatial planning (*Raumordnungsberichte)*, recommendations (*Empfehlungen)*, and an ÖROK Atlas on spatial development in **Austria**.

Following Austria's accession to the EU in 1995, ÖROK started to play an increasingly important role in the context of the Cohesion policy. While its functions were limited to technical aspects in the first two programme periods (e.g. providing a secretariat for the Monitoring Committee), it adopted a more significant role in the 2007-13 period, particularly through its involvement in the drafting of the NSRF (STRAT.AT).

The development of the NSRF, through a consultative process named STRAT.AT, was perceived to have been so useful with respect to the coordination of different actors and policies, that it was continued in the new programme period. The 'STRAT.ATplus' comprises two series of events of information and exchange, '*Foren*' organised by ÖROK and '*Strategien*' organised by others, mainly the Federal Chancellery and the nine *Länder*. STRAT.ATplus events have covered a variety of themes on Cohesion policy and beyond (e.g. the launch of the Structural Funds period 2007-13; 12 years of Structural Funds in **Austria**; Seventh Framework Programme; EU Cohesion Policy 2014+; Governance of regional development). STRAT.ATplus activities are based on annual programmes, and the year 2009 focused on trends and challenges, such as the Commission's Regions 2020 report on demography, climate change, energy and globalisation.

Although the STRAT.ATplus provides an interesting example of cooperation and exchange of information, it does not have any formalised structure or any clear membership basis. Instead, the events are targeted at all kinds of bodies and individuals involved in (EU) Cohesion policy and (domestic) regional policy. ÖROK's strategic support of Cohesion policy (mainly the STRAT.ATplus process) has also been recognised by the Commission.

Lastly in **France**, cross-sectoral coordination at the national level – i.e. between Cohesion and domestic regional policy, and between these and wider domestic policies – is also a long-standing feature of public policy and is achieved through the work carried out by DATAR, which is in charge of coordinating both policy preparation (including budgetary aspects) and policy implementation across all ministries concerned by regional development

issues. Given the breadth of themes within French regional policy, the inter-ministerial approach, which is mainly in place for the CPERs (*Contrats de projets Etat-régions*, the main regional policy intervention tool in **France**), is used for a considerable range of initiatives (e.g. regional aid grant, rural excellence poles, clusters, national territorial renewal fund). In this context, the fact that, since 1988, DATAR has also been responsible for Cohesion policy has enhanced its coordination with domestic regional policy, and the two are now considerably aligned. The cross-sectoral coordination filters down from the national to the regional levels through the work of regional state representatives (the *préfets*). At a more operational level, the coordination between domestic regional policy and Cohesion policy has been pursued through the operational alignment of the domestic CPERs (*Contrats de project Etat-région*, the main regional policy intervention tool in **France**) and the ERDF co-funded OPs. The CPERs have wider priorities than ERDF in **France** (as they include, for example, rail and public transport), and coordinated governance, including a coordinated decision-making process, was introduced to address implementation difficulties which had occurred in the late 1990s. This includes: common strategic orientations focused on the Lisbon and Gothenburg agendas; shared regional diagnoses leading to coherent intervention strategies; shared intervention fields based on innovation, research, ICT, employment/training, support to industries, sustainable development and energy, territorial development and interregional policies; and common timescales and management, monitoring and evaluation systems.

Turning now to more recent developments, a reorganisation of government structures to increase coordination between Cohesion policy and domestic policies (regional policy and beyond) has been introduced in **Finland**, where increased coordination has been obtained through the reorganisation of regional development competencies in a new Ministry of Employment and the Economy, established at the start of 2008. This now includes the units responsible for regional development from the Ministries of Trade and Industry, Labour and the Interior. Despite the fact that under the Regional Development Act, most sectoral ministries[91] are responsible for drafting their own regional development strategies (indicating regional development goals, regional focus of measures and regional spend), and that the regional councils take into consideration the government's regional development objectives in their regional strategic programmes, regional policy coordination has been a challenge due to the number of actors involved in regional development. The national reorganisation has been successful in improving cross-sectoral coordination, and this is being supplemented by an *ad hoc* project launched in 2010, which should also increase cross-sectoral coordination at the level of individual regions and enhance multi-level coordination (the ALKU project, see Box 3).

[91] Ten ministries are covered by these provisions: Employment and the Economy; Transport and Communications; Agriculture and Forestry; Justice; Education; Defence; the Interior; Social Affairs and Health; Finance; and the Environment. To date, only five have produced regional strategies: Employment and the Economy; Agriculture and Forestry; Finance; Social Affairs and Health; and the Environment. In other ministries, objectives related to regional development are included in their respective sectoral strategies.

Box 3: Regional-level cross-sectoral coordination in Finland: the ALKU project

The ALKU project introduced at the start of 2010 is expected to be a key development in improving sectoral coordination at the regional level in **Finland**. Essentially a reform of the State's regional administrative structure, the project aims to strengthen the regional development system and to clarify the role of regional development in the decision-making processes of the government and different sectoral ministries. In addition, the reform has provided conditions for the regional councils to influence the steering of the State's regional resources in the regions, as well as to coordinate the various development measures of the State and the municipalities.

One of the key changes introduced by the ALKU project concerns the reduction of authorities responsible for regional development from six to two. The new authorities include the agencies for regional administration (AVIs)[92] and the centres for business, traffic and environment (ELYs)[93], both of which will work in collaboration with the regional councils. The new structure is clearer and expected to facilitate the focusing of resources on regionally approved priorities.

In addition, a new committee for regional and structural policy was established in March 2010 to replace the formerly separate regional development negotiation committee and Structural Funds negotiation committee. The new committee will: process proposals relating to national regional development objectives and to other significant regional development plans and programmes; support the Ministry of Employment and the Economy in its coordination and monitoring tasks; coordinate sectoral regional development strategies and their objectives; monitor the implementation of national regional development objectives and sectoral regional development strategies, and the related steering of the State's regional administration; and make suggestions for the coordination and development of national regional development and Structural Funds activities.

Source: EoRPA country research.

4.2 Strategic measures

Cross-policy coordination is ensured also through overarching policy frameworks at both national and regional levels. At the national levels, the NSRFs have been a useful tool in this respect, for example in **Sweden** and **Italy**. In **Sweden**, the NSRF provides the overall framework for sectoral coordination between regional growth policy, labour market policy and Cohesion policy. As well as being the overarching framework for the implementation of Structural Funds, it also provides the basis for domestic regional policy programmes (Regional Development and Regional Growth programmes). The Swedish NSRF for 2007-13 has therefore provided the main strategy for the implementation of regional growth activities too. This increased strategic integration between different policies was achieved

[92] A total of six AVI agencies were created, which perform tasks related to basic services, legal protection, police and rescue operations, environmental permissions and employment protection.

[93] The ELY centres cover tasks related to economy, labour force, expertise, culture, traffic and infrastructure, as well as environment and natural resources. However, only nine of the ELY centres perform functions related to the above-mentioned fields, while the six other centres are more concentrated in their tasks.

through *ad hoc* work for this purpose undertaken during the preparation of the NSRF, as illustrated in Box 4.

The OECD has recently endorsed the development of Swedish regional growth policy in terms of stronger linkages and coordination between other sectoral policy areas, and also in terms of stronger coordination between the actors at different levels,[94] in recognition of the fact that regional growth is achieved by a number of different programmes and measures, some of which take place outside the regional growth policy framework (such as infrastructure, education and services), as has already been noted.

Box 4: Cross-sectoral coordination in the preparation of the Swedish NSRF

In **Sweden**, since 2007, efforts have been made to increase cross-sectoral cooperation at national, regional and local levels. In 2007, the Swedish Government assigned 20 authorities and organisations to enhance cross-sectoral cooperation in the context of sustainable regional growth. The assignment divided the authorities into three groups according to NSRF priorities: innovation and renewal, competence development and increased labour force supply, and accessibility. The aim was to contribute to cross-sectoral working methods and more coordinated cooperation with local and regional actors. By 2009, this was perceived to have resulted in increased knowledge amongst national authorities on each other's activities and roles, as well as on the objectives and priorities of regional actors. It was concluded that understanding on regional growth issues had risen, as had the importance of regional growth within their respective areas of expertise. However, the results also pointed out that some authorities found it difficult to develop an overview of regional growth questions, and that cooperative processes took time to develop. Many authorities were also looking for clearer direction from government, and other measures (for instance, more resources) were also considered to be important in terms of promoting cooperation. Lastly, it was noted that the level of interest in cooperation was largely linked to previous experiences, but that it was also linked to the extent to which cooperation was seen to contribute to the authorities' own core activities.[95]

In similar vein, the Italian 2007-13 NSRF (known as the National Strategic Document, NSD) brings both strands of regional policy – EU co-financed and other – under a single umbrella, merging the two into a 'unified' regional policy. The aim is to achieve increased coherence and complementarity between the two strands of policy and allow for joint monitoring and evaluation. This unitary nature of regional policy is also pursued at the regional level with joint evaluation plans. However, the unitary framework has come under threat with the

[94] Regeringens skrivelse, *Strategiskt tillväxtarbete för regional konkurrenskraft, entreprenörskap och sysselsättning*, 2009/10:221, 27 May 2010, p. 14.

[95] Näringsdepartementet (2009) '*Strategisk uppföljning av en nationell strategi för regional konkurrenskraft, entreprenörskap och sysselsättning 2007-2013*', pp. 50-51.

cuts in 2009 to the domestic regional policy budget and the consequent suppression of some NSD investment programmes.[96]

The spatial planning process is another increasingly important arena for cross-policy planning. In **Poland**, for instance, the new draft National Spatial Policy Concept (KPZK) produced in 2010 will bring spatial and regional policy issues together for the first time under the overall heading of strategic development. The previous National Spatial Policy Concept did not contain any reference to national regional development strategies or objectives or to region-specific strategies,[97] and as Poland's new regional policy model has developed new categorisations of the national territory, this lack of integration created potential challenges and tensions, for instance in terms of transport or housing provision at different levels. The approach taken in the new draft KPZK focuses on networking Poland's largest metropolitan areas to create an open system connected to other metropolitan centres in Europe. This reflects the 'polarisation-diffusion' model outlined in the latest draft of the Polish National Strategy for Regional Development. The classification of 'functional areas' in the KPZK also accords with the 'place-based' approach noted in Poland's new regional policy model, confirming the increased attention being given to identifying the resources and needs of different territories.

A similar approach of coordination through spatial planning can be found in **Austria** and in Wales. In **Austria**, the Austrian spatial planning strategy (Austrian Spatial Development Concept, *Österreichisches Raumentwicklungskonzept,* ÖREK) provides the basis for federal regional policy, ensuring that it is coordinated with other federal policies with spatial impact and with those implemented in the *Länder*.[98] In Wales, the Welsh Spatial Plan provides a forum for cross-sectoral coordination through the operation of regional cross-sectoral groups. In addition, a 'Policy Gateway Integration Tool' is intended to increase cross-sectoral coordination by facilitating assessment of the impact of policies (including Cohesion policy) on all government priorities, and attempting to ensure that all policies take due account of each other and are sustainable.[99]

Cross-sectoral coordination is also achieved by coordinating (or subsuming) Cohesion policy initiatives under economic development strategies at the regional level. For example, in the English regions, the Regional Development Agencies (RDAs) receive their budgets from a range of different sectoral government departments, which then goes into a 'single pot', to be coordinated and spent at regional level according to the agreed Regional Economic

[96] See Polverari L (2010) 'Policies in Flux: Regional Policy Developments in Italy, 2009-2010, in in EPRC (2010) *Regional Policy and Recovery from the Economic Crisis: Country Reviews*, EoRPA Paper 10/2, EPRC, Glasgow, pp. 115-137.

[97] Szlachta, J. and Zaucha, J. (2010) 'A new paradigm of EU regional development in the context of Poland's National Spatial Development Concept' in Churski, P. and Ratajczak, W. (eds.) (2010) *Regional development and regional policy in Poland: first experiences and new challenges of the European Union membership,* PAN: Warsaw, p. 165.

[98] It is currently under revision (the current ÖREK from 2001 is its fourth edition and the approval of the revised version is foreseen for 2011). It is a guidance document addressing relevant stakeholders and policymakers in spatial and regional development, although it has no legally binding character.

[99] WAG (2009) *Territorial Cohesion: The View from Wales. The Response of the Welsh Assembly Government to the European Commission's Consultation on Territorial Cohesion.*

Strategy, which acts as an umbrella framework, helping to ensure coordination.[100] Somewhat similarly, in **Sweden**, Regional Development Programmes are in place to provide an overarching framework for longer-term 'holistic' strategies in the regions, facilitating coordination across sectors and between local, regional and national initiatives, and establishing a basis for other programmes and instruments implemented in the region. A similar integrative function is fulfilled by the Regional Development Plans of the Italian and Spanish regions and by the regional strategies of Finnish regions (in all cases broader socio-economic development strategies).

Having reviewed these many mechanisms, a fundamental question emerges as to whether, in these attempts at cross-sectoral coordination, Cohesion policy informs domestic policies or whether domestic policies, even when they do not pursue the same underlying objectives of Cohesion policy, dictate the agenda of Cohesion policy programmes.[101] The question is perhaps largely academic nowadays given the alignment of Cohesion policy with the Lisbon agenda - the Lisbon orientation of the Member State's own policies should deliver a 'natural' policy convergence. Whether this convergence is in agreement with the primary goal of Cohesion policy of regional catching-up is open to question, however (and is largely beyond the remit of the paper, and consequently discussed only briefly in Section 6.1).

[100] Shutt J., Colwell A. and Koutsoukos S. (2002) 'Structural Funds and their impact: Signed and sealed, but can we deliver?' *European Planning Studies*, 10, 1, pp.113-130.

[101] For instance, one of the fieldwork interviews conducted highlighted that 'due to the small budgets Cohesion policy cannot be expected to change or correct the rationales of domestic policies which have important spatial impacts'.

5. ADMINISTRATIVE CAPACITIES, INSTITUTIONAL CONTEXTS AND PUBLIC SECTOR EFFICIENCY

The external coherence of Cohesion policy relates not only to the degree of strategic fit and consistency between this policy with other policies, including - where existing - domestic regional policy, but also to the institutional context and public administration systems of a given country. Cohesion policy does not operate in a vacuum: it is managed, implemented and delivered by the public administration of Member States and regions. The degree of institutional capacities available - at both these levels, at sub-regional levels and amongst partners and beneficiaries - is thus paramount to ensure effective and efficient policy delivery. Research carried out in the showed that effective implementation of Cohesion policy is conditional upon a 'good' institutional structure,[102] that Cohesion policy is more efficiently implemented where institutional capacities are high,[103] and that political stability affects the policy's ability to deliver the intended goals, as it encourages the pursuit of long-term (rather than short-term, discretional) development policies and strengthens administrative continuity and efficiency.[104] There is thus a paradox that 'regions with stronger institutional capacity make the most effective use of Structural Funds, even though it could be argued that they need them least'.[105]

All the countries covered by this paper are considered to have a degree of administrative capacity that is at least sufficient to ensure that policy is delivered to specification. In most of the countries reviewed, administrative capacity at all levels concerned by Cohesion policy is considered to be high. The Spanish NSRF, for example, explicitly states that there are no difficulties with institutional capacity in the regions or at national level and, for this reason, it does not include a priority or specific interventions to this purpose. In some cases, however, there are unresolved issues. In **Italy** and **Poland**, in particular, areas of the public administration are considered in need of strengthening and Cohesion policy funding is utilised for this purpose.

In **Italy**, previous CSFs for the Southern regions have made unprecedented efforts to strengthen the capacities of regional administrations in these areas, particularly in the fields of programming, monitoring and evaluation. Improvements were indeed achieved and

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[102] Ederveen, S., de Groot, H. L. and Nahuis, R. (2006) 'Fertile Soil for Structural Funds? A Panel Data Analysis of the Conditional Effectiveness of European Cohesion policy', *Kyklos*, 59, pp. 7-42. In their analysis they consider three types of 'institutional quality variables': variables related directly to the outcomes of government policy (inflation and government savings); variables that indicate social cohesion (trust); variables on institutional quality (corruption perception index, openness and quality of governance index). They find that the last set of variables significantly affects the capability of Cohesion policy to determine growth/catching-up.

[103] Milio, S. (2007) 'Can Administrative Capacity Explain Differences in Regional Performances? Evidence from Structural Funds Implementation in Southern Italy", *Regional Studies*, 41, 4, pp. 429-442.

[104] Milio, S. (2010) 'Twenty years of European funding. Italy is still struggling with implementation', in Mammone, A. and Veltri, G. A. (eds.)(2010) *Italy the Sick Man of Europe,* Routledge, London, pp. 213-228; Milio, S. (2008) *op. cit.*; Iona, A., Leonida, L. and Sobbrio, G. (2010) 'Industrialisation, convergence and governance', in Mammone, A, and Veltri, G. A. (2010) *op. cit.*, pp. 201-212.

[105] Begg, I. (2008) *op. cit.*, pp. 291-310.

Cohesion policy has also been considered to have introduced important innovations and spillover effects into domestic practices.[106] However, it is acknowledged that such progress was uneven across regions[107] and that further improvements are needed. For instance, a persistent problem, which applies to the whole of **Italy** but is particularly marked in the *Mezzogiorno*, is the long timetable of infrastructure investments.[108] Furthermore, it is becoming increasingly apparent that progress achieved thus far may not be irreversible, which underlines the importance of continued investments in this sphere. The current NSRF thus devotes a considerable amount of resources to strengthening the institutional and technical-administrative capacities of the public administrations.[109] This is not without challenges, however, as the recent Strategic Report noted that a considerable proportion of these resources is being used for the acquisition of typical TA services, rather than 'those "broad" interventions which are able to ensure the overcoming, in a definitive and permanent way, of the structural gap, in particular, of the Public Administration of the *Mezzogiorno*'.[110]

Poland, on the other hand, has displayed the problems that are typical of Member States that have only more recently joined the European Union:[111]

- a public administration that is struggling to adapt to the requirements of Cohesion policy, that are both extraneous to the previous administrative tradition of the country and very resource-intensive (which led the administrations in charge of 2004-06 programmes to prioritise short-term contingency measures over longer-term strategic approaches);[112]

- a central-regional cleavage between the national government, reluctant to pass on responsibilities to the regions, and the regions that are striving for more powers

[106] Fargion, V., Morlino, L. and Profeti, S. (2006) *Europeizzazione e rappresentanza territoriale. Il caso italiano* (Il Mulino, Bologna).

[107] See Milio, S. (2007 and 2008) *op. cit*.

[108] Mancurti, A. (2010) *Testimonianza all'indagine conoscitiva Commissione V Bilancio, Tesoro e Programmazione, resoconto stenografico*, seduta di mercoledì 27 gennaio 2010, 11. As observed by Mancurti, this is not a problem that the ministry in charge of Cohesion and domestic regional policy can solve, but which is crucial given the 11 years needed on average for such projects (which contrasts with the 8-year timetable of Cohesion policy). See also Bentivogli, C., Casadio, P. and Cullino, R. (2010) 'I problemi nella realizzazione delle opere pubbliche: le differenze territoriali', in Cannari, L. (ed.) *op. cit*., pp. 223-252.

[109] Priority 10 of the NSD 'Governance, institutional capacities and effective competitive markets'. This priority includes €2.1 billion, equivalent to 3.6 percent of the total Cohesion policy programming for 2007-13, of which €1.7 billion for Convergence regions and €0.4 billion for the remaining regions.

[110] Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica, *Rapporto Strategico Nazionale 2009*, Rome, December 2009, p. 43 (own translation).

[111] Bachtler, J. *et al* (2009) *op. cit*. See also European Commission (2010) *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013*, SEC(2010)360, COM(2010)110 final, Brussels, 31.3.2010.

[112] Kozak, M., Ledzion, B., Olejniczak, K., Weremiuk, A. and Woitowicz, D. (2009) *Ex post evaluation of Cohesion policy programmes 2000-2006 co-financed by the ERDF. Work Package 11: Management and Implementation systems for Cohesion policy. Final Report. Task 2 – National Assessment Report Poland*, European Policies Research Centre and Metis, July 2009.

(e.g. concerning the use of integrated or Regional Operational Programmes, the role of central government offices in the regions, or the use of stringent guidelines by the Ministry of Regional Development to inform the management of Regional Operational Programmes);

- the typical exodus from the public sector, in favour of better-paid private sector jobs; and

- problems linked to high staff turnover.

As in **Italy**, the Polish NSRF provides a response to these needs, with interventions to strengthen the strategic dimension of regional policy, improve the quality of public policy management, and strengthen multi-level coordination and support of social capital in the regions.[113]

Table 5: Administrative capacity for regional policy implementation

Country	Territorial disparities in administrative capacity level	Adequacy of administrative capacity	Reported problems?
Austria	No	Yes	None
Finland	No	Yes	None
France	No	Yes	High staff turnover Central/regional cleavage
Germany	No	Yes	None
Ireland	No	Yes	State/region cleavage
Italy	Yes	Improvements needed	PA in Southern regions Long infrastructure projects timetable Political instability in some regions
The Netherlands	No	Yes	None
Poland	No	Improvements needed	Significant expansion of PA capacity since accession, but: - high staff turnover - private sector crowding-out - state/region cleavage
Spain	No	Yes	None
Sweden	No	Yes	None
United Kingdom	No	No	Potential problem of abolition of RDAs in England

Source: EoRPA country research.

113 And as in Italy, learning made through Cohesion policy implementation has been deemed to have spilled over into domestic practices. See Dąbrovski, M. (2008) 'Structural Funds as a Driver for Institutional Change in Poland', *Europe-Asia Studies*, 60, 2, pp. 227-248, and Kozak, M. *et al* (2009), *op. cit*.

A similar national/regional cleavage as in **Poland** has been observed in **Ireland** and **France**. In the latter, an additional problem is the high staff turnover within State services at all levels, which is encouraged by an increasing use of shorter-term contracts for civil servants and career paths for senior civil servants that reward task rotation. This feature, which applies to the French State administration across the board, is considered to be particularly problematic for Cohesion policy, given the considerable level of technicality of the tasks involved in administering co-financed programmes and the time needed to build adequate expertise in this area.

In other cases, the delivery of Cohesion policy has not been hindered by insufficient domestic administrative capacities *per se*, but instead by the introduction of domestic administrative reorganisation. In England, in particular, the change in management and implementation arrangements for ERDF in 2007-13 - where delegated Managing Authority responsibility was transferred from the regional Government Offices to the Regional Development Agencies (RDAs) - led to capacity problems with regard to closure of the 2000-06 programmes.[114] The recently-announced abolition of the RDAs may present further challenges regarding the delivery of the current programmes.

The preparatory research for this paper focused in particular on whether there are disparities in the levels of administrative capacity across the national territory and the extent to which these, insofar as they exist, hamper regional catching-up and growth. This issue has emerged as particularly problematic in only one of the countries reviewed - **Italy** - where the duality in the socio-economic situation between South and Centre-North is also reflected in an equal lower level of institutional endowment (Table 5). Various studies testify to the lower administrative efficiency and quality of essential public services of the Italian *Mezzogiorno* compared to the national average.[115] Giordano *et al*, for example, have rated public sector efficiency in four public services (education, healthcare, justice and nurseries) across the Italian territory, concluding that the South of **Italy** features at the bottom in the ranking of efficiency across all four services and across all measures considered, and that the gap in performance is particularly acute in those services that are managed at local level.[116] Sociologic explanations for this duality point to the lower level of

[114] And indeed, although a tangential topic for this paper, it should be mentioned that the difficulties caused by managing the complexity of overlapping programme periods was raised as a common problem in the 2009 Strategic Reports of a number of countries. See European Commission (2010) *Cohesion Policy: Strategic Report 2010 on the implementation of the programmes 2007-20103. Communication from the Commission to the European Parliament, The Council, The European Economic and Social Committee and the Committee for the regions*, SEC (2010)360/COM (2010)110 final, Brussels 31.03.2010.

[115] Cannari, L. and Franco, D. (2009) ‘Presentazione delle ricerche’, in Cannari, L. (ed.) *op. cit.*, pp. 7-12.

[116] Giordano, R., Tommasino, P. and Casiraghi, M. (2009) ‘Le determinanti dell’efficienza del settore pubblico: il ruolo delle cultura e delle istituzioni’, in Cannari, L. (ed.) *op. cit.*, pp. 253-278. Similar results have been delivered by studies on territorial performance of civil tribunals and on the territorial performance of public administrations based on IT-based services provided and accounting transparency. See Carmignani, A. and Giacomelli, S. (2009) ‘La giustizia civile in Italia: i divari territoriali’, in Cannari, L. (ed.) *op. cit.*, pp. 325-352; SVIMEZ (2008) *Rapporto SVIMEZ 2008 sull’economia del Mezzogiorno*, Il Mulino, Bologna 2008; SVIMEZ (2009) *Rapporto SVIMEZ 2009 sull’economia del Mezzogiorno*, Il Mulino, Bologna, 2009; Sapienza, R. (2009) *op. cit.;* Arpaia, C., Daronzo, R. and Ferro, P. (2009) ‘Informatizzazione, trasparenza contabile e competitività della pubblica amministrazione: un’analisi a livello regionale’, in Cannari, L. (ed.) *op. cit.*, pp. 353-381.

social capital in the Southern regions compared to the rest of **Italy**,[117] which includes a lesser degree of trust by citizens in public institutions, lower levels of expectation and a minimal participation in political life and so forth, all of which feed a vicious circle of furthering disenfranchisement and lessening social capital.[118] Nevertheless, there must be other factors at stake too, not just because the lower social capital can be seen as a consequence rather than a cause of the lower institutional endowment, but because of the considerable efforts realised in subsequent programme periods (particularly in the 2000-06 CSF and in the current NSD) to raise such social capital (though it is acknowledged that their effects are by nature visible only in the longer-term).

See also Franco, D. (2010) "L'Economia del Mezzogiorno" in Cannari, L. and Franco, D. (eds.) *Il Mezzogiorno e la politica economica dell'Italia*, Banca d'Italia, Seminari e convegni, n. 4, giugno 2010, pp. 1-13.

[117] Putnam, R. D., Nanetti, R. and Leonardi, R. (1993) *Making democracy work: civic traditions in modern Italy,* Princeton University Press, Princeton N.J.

[118] Putnam, R. D. *et al* (1993) *op. cit.*; Giordano, R. *et al* (2009) *op. cit.*

6. THE INTERNAL COHERENCE OF COHESION POLICY

As emphasised in previous sections of this paper, the 'external' coherence of Cohesion policy, i.e. its consistency with domestic policies and institutional frameworks, may be an important (and under-analysed) factor contributing to the ability of this policy to attain its stated goals of regional catching-up (in Convergence areas) and growth and employment (in RCE regions). Much more frequently discussed in the academic and policy literatures is the 'internal' coherence of Cohesion policy, i.e. its internal functioning and whether some features of the current Cohesion policy regulatory framework may hinder the policy's effectiveness in achieving its goals.

Given the magnitude of this topic and of the existing literature and policy-research produced on it, it is not the purpose of this paper to address this issue in detail. Instead, the current section presents a summary review of the main tensions, allowing a more complete appraisal of strengths and weaknesses of the current Cohesion policy approach.

As far as the countries covered by this review are concerned, the main tensions with regard to the 'internal' coherence of Cohesion policy relate primarily to: (i) their territorial focus; (ii) the soundness of the strategies pursued; and, crucially, (iii) the rules governing management and control of programmes.

6.1 Strategic focus

In the so-called equity/efficiency debate,[119] discussions of the new regional policy paradigm suggest that the pursuit of spatial equity (adequate levels of service provision and income in all regions) and economic efficiency (growth and competitiveness) are mutually reinforcing.[120] The popularity of national growth/competitiveness approaches in domestic regional policy, and the increasing Lisbon orientation of both domestic and Cohesion policy programmes, imply widespread support for this school of thought. However, other analyses suggest that there is a trade-off between these two competing goals, and that this trade-off is becoming increasingly topical in the framework of rising budgetary constraints.[121]

The optimal balance between basic infrastructure development and more sophisticated efforts to boost the business environment in regions or between environmental protection and economic development is still debated. In some countries, there is still a perceived need for more 'traditional' forms of regional development support than is allowed by a restricted Lisbon-focus. For example, although moving towards a pro-competitiveness agenda, Polish regional policy maintains some traditional concerns with struggling regional economies, and the government includes expenditure on transport infrastructure in its definition of pro-development initiatives. Accordingly, significant priority (and funding) is

[119] OECD (2009) *op. cit.*; Begg, I. (2010) *op. cit.*; Fratesi, U. (2007) *op. cit.*; Bachtler, J. and Raines, P. (2002) 'A New Paradigm of Regional Policy? Reviewing Recent Trends in Europe', Report to the EoRPA European Regional Policy Research Consortium , University of Strathclyde, Glasgow.

[120] Bachtler, J. and Raines, P. (2002) *op. cit*.

[121] Fratesi, U. (2007) *op. cit*.

still attached to the development of basic infrastructure.[122] Debates on the earmarking of Lisbon Strategy objectives have shown strong differences between national and regional/local elites on the structure of financial allocation, with regions and local authorities arguing that hard infrastructure, often of local character, is what is predominantly needed for successful development. Also in **Ireland**, **Finland** and Scotland (**United Kingdom**), there is a perception that some regions still need investment in basic infrastructure in order to boost competitiveness, such as the Border Midland and Western (BMW) region in **Ireland** and the Highlands and Islands region of Scotland.

A second aspect of the equity-efficiency debate relates to concerns about funding take-up. In **Ireland**, for instance, there are concerns that the Lisbon orientation of Cohesion policy programmes may interfere with take-up in the BMW region. A particular concern remains the potential of the region to absorb this type of funding, especially as much of the money the region receives will be front-loaded, and there is only one university in the region. The economic downturn, which has hit **Ireland** particularly hard, has made the situation even more difficult, as businesses have cut their R&D budgets and government has cut spending. Similar concerns are evident in **Spain** in relation to the 'Technology Fund' NOP which is required to allocate 75 percent of funding to the Convergence regions.

A further issue is that, due to the need for domestic co-financing, the Lisbon focus of Cohesion policy programmes ties up domestic resources. In the EU12[123] and other large recipients of Convergence support, substantial amounts of EU funding against a background of constrained domestic public expenditure can limit the scope for autonomous domestic public investment priorities. In addition, because Cohesion policy funding must be co-financed and spent within a certain timeframe, there is a danger that the content of domestic regional development activities may be dictated less by strategic considerations than by the need to absorb EU funds.[124]

Lastly, the current focus of Cohesion policy on Lisbon goals (and proposed future alignment with the EU2020 strategy) and lack of area designation for non-Convergence regions may result in it being viewed as simply another source of economic development funding. This could represent a dilution of policy purpose in non-lagging regions, where Cohesion policy can easily become an additional funding stream for domestic regional strategies that would be implemented anyway, raising questions about the European added value of this policy. This leads to the issue of the territorial focus of programmes, discussed below.

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[122] *Ibid.*, p. 20. The Polish press has noted some reservations among officials about the lack of emphasis on priorities such as infrastructure development that remain important themes for Polish regional development, see 'Nowa strategia Unii Europejskiej' Gazeta Wyborcza 03.03.2010.

[123] In this case, the so-called Lisbon earmarking is voluntary, but a number of EU12 Member States, including Poland, have voluntarily aligned their Cohesion policy strategies with the Lisbon agenda.

[124] Thus some Polish academics, for example, differentiate between technical absorption (ability to spent funds on time and in line with procedures) but also to structural absorption (ability to use funds in a strategic, development-oriented way); Hausner, J. (2007) 'Czy należy pomagać regionom słabo rozwiniętym?', *Sympozium Regional Studies Association - Polish section*, Warsaw, 18.04.2007.

6.2 Territorial focus

A second group of possible tensions or contradictions intrinsic to Cohesion policy relates to the territorial focus of the policy. With regard to those countries eligible predominantly or wholly within the Convergence Objective, and particularly in the CEE Member States, a controversial issue is whether policy should focus on national convergence with the rest of the EU, and thus predominantly on the capital regions, to the detriment of more balanced intra-state development. Theories of spillovers from capital regions to other regions are being called into question by growing internal disparities in many EU Member States (e.g. the **Czech Republic**, the **Slovak Republic, Hungary** and **Poland** from the EU10, but also **Greece**, **Ireland**, **Sweden** and the **United Kingdom** from the EU15).[125] This raises questions about how Cohesion policy investments (as well as sectoral policies) should be spatially targeted to help achieve intra-state GDP convergence. In Poland, in particular, the flow of investment to important metropolitan 'drivers' or lagging areas has led to concerns in the current programme period about the marginalisation of poorly developed areas. This has resulted in the development of a model for allocating Cohesion policy funds that takes into account regional unemployment and levels of GDP. There is also a dedicated programme with ring-fenced funds for Poland's eastern regions.

The appropriateness of the spatial focus of the policy has also emerged as an issue in the EU15 Member States, where the changing spatial focus outwith Convergence regions (specifically, the lack of spatial focus in RCE programmes) is contested, as funding in regions covered by these programmes may no longer be focused on structurally weak areas. Although RCE programmes sometimes earmark funding for certain areas, EU funding is also used to fund generic economic development, with resources allocated across a wide range of eligible interventions. The Lisbon orientation and earmarking requirement have increased the concentration of spending in RCE regions to fund investments in the 'economic engine' areas of these regions. Some policymakers interviewed for this paper argued that the territorial approach of the policy should be enhanced in order to contribute to territorial cohesion, but that the current focus on the Lisbon strategy (and, in future, EU2020) makes this difficult.

Further issues related to the current territorial approach are the artificial separation of rural and regional development (discussed in Section 2.6), and the reliance on NUTS II level data to make EU-level comparisons, which are not deemed suitable for correctly representing the problems of sparsely populated regions. For this reason, **Finland** has been promoting the use of lower-level regional criteria (NUTS III) for these purposes, since this would convey a better picture of distinctive regional differences and opportunities. This is viewed as particularly important for understanding and responding to demographic challenges, which appear very differently depending on which level of data is used.[126]

[125] OECD (2009) *op. cit.*

[126] Ministry of Employment and the Economy (2010) *Suomen aluekehittämisstrategia 2020*, 17 March.

6.3 Administrative efficiency

The *administrative burden* involved in implementing Cohesion policy programmes has been much discussed, particularly in the context of the simplification debate. The Commission's summary of Member States' 2009 strategic reports highlights the main challenges and 'systemic obstacles' that have been identified.[127] Despite the programmes being delivered in very different contexts, there appears to be some agreement that the key issues are: (i) the changes in the rules on financial control, which are perceived to be the most frequent contributor to implementation delays as Member States adjust to the new control system; and (ii) the complexity of managing overlapping programme periods.

These issues highlight the perception that the heavy administrative burden associated with implementing the Funds has a cost attached, and that the cost may be at the expense of the pursuit of policy goals. Picking up on the themes highlighted above, research reveals widespread concern that the current focus on detailed administration and financial control leaves no space for reflection or reform, and it is, in the case of smaller programmes, disproportionate to the value of the programmes.[128] Implementation systems for EU Cohesion policy are perceived as bureaucratic and cumbersome, and this discourages participation by valuable beneficiaries, effectively excluding certain sectors or stakeholders from the programmes (for instance, the voluntary sector in RCE programmes).

This can also leave programmes struggling to commit resources and potentially displace activity towards domestic funding schemes, which are perceived as more flexible and user-friendly. The focus of activity under the Cohesion policy programmes then becomes detailed administration and financial control, rather than project results and impacts. The n+2 rule comes in for particular criticism, as it is perceived to encourage a focus on maximising spend, rather than developing quality; it can lead to the selection of projects that are more administratively and technically mature, at the expense of others that may be closer to programme objectives;[129] and it has led some programmes to 'relax' project selection criteria to include less strategic (but financially viable) projects.[130] Public administration literature has noted that over-emphasising one type of accountability over another – in this case, financial accountability over outcome accountability - can lead to 'perverse effects' - the n+2 rule is a fitting illustration of this point.[131] Nevertheless, as the rule is also commonly praised for having induced increased financial rigour in the way funds are spent, it is supported in principle, but with calls for ways to render it more flexible, for

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[127] European Commission (2010) *op. cit.*

[128] For example, in Davies, S. *et al* (2008) *op. cit.*, and Mendez, C. and Kah, S. (2009) Programme Implementation in Times of Economic Crisis: Review of Programme Implementation Winter 2008-Spring 2009, *IQ-Net Review Paper 24(1)*, EPRC, Glasgow.

[129] Bachtler, J. *et al* (2009) *op. cit.*

[130] Davies, S. and Polverari, L. (forthcoming) 'Financial Accountability and Cohesion Policy', *Regional Studies*; Davies, S. *et al* (2008) *op. cit.*

[131] Gregory, R. (2007) 'Accountability in Modern Government', in Peters, G. and Pierre, J. (eds.) (2007) *The Handbook of Public Administration, Concise Paperback Edition*, Sage, London, p. 340; Mulgan, R. (2003) *Holding Power to Account: Accountability in Modern Democracies* Palgrave MacMillan, New York, p. 164; Davies, S. and Polverari, L. (forthcoming) *op. cit.*

instance exempting particularly innovative, longer-term or complex and composite projects.

Further specific criticisms with respect to management and administration procedures include the fact that the error rate set by the Commission undermines the potential of audit activities to become real learning tools; that the timing of closure audits does not support programme implementation, but can result in a distorted view of a programme's achievements;[132] and that the artificial demarcation between funds (in particular ERDF and EAFRD) and the emphasis on differentiation leaves potential beneficiaries confused and is time-consuming for programme administrators. It also potentially creates gaps in support coverage in the attempts to ensure there are no overlaps.[133]

[132] Davies, S. *et al* (2008) *op. cit.*

[133] Unpublished IQ-Net research (UK fieldwork, 2008 and 2009).

7. CONCLUSIONS AND ISSUES FOR DISCUSSION

This paper has addressed three main issues: first, the 'external coherence' of Cohesion policy; second, the coordination initiatives and frameworks put in place in the countries reviewed to assist such coherence; and, lastly, the 'internal' coherence of Cohesion policy. It has focussed on the EoRPA countries – **Austria**, **Finland**, **France**, **Germany**, **Italy**, **The Netherlands**, **Poland**, **Sweden** and the **United Kingdom** – plus **Ireland** and **Spain**.

Investigating the external coherence of Cohesion policy has entailed exploring the interrelationships between Cohesion policy and domestic policy frameworks and institutional environments. This has included an assessment of the potential tensions that exist between Member States' own policy and institutional contexts and the goals pursued through Cohesion policy. Some of the tensions discussed are part of the wider relationship between territorial and sectoral policies; others are specific to the relationship between EU and domestic funding; still others relate to the domestic administrative frameworks in which the policies are delivered (institutional framework and administrative capacities).

The examples proposed in the paper are for illustrative purposes only, and they are not intended to represent all possible tensions that may exist between Cohesion policy and the domestic policy and institutional frameworks of the countries reviewed. Nevertheless, it is clear that **the external coherence of Cohesion policy has implications for achieving the goals of Cohesion policy**, i.e. regional catching-up (in Convergence areas) and growth and employment (in all other European regions). In other words, Cohesion policy may be hindered from effective pursuit of its intended goals if there are contradictions between sectoral and territorial policies, as in the examples discussed in Section 2. The same applies if administrative and institutional systems are inadequate for effective implementation. The provisions of art. 175 of the EU Treaty, that EU Member States should coordinate their economic policies so as to attain the objectives of Cohesion policy, implies the need for increased cross-policy coordination, yet there is little evidence to suggest that considerations of external coherence are taken into account and monitored in the countries reviewed. Only in one country is there a tool for the ex post monitoring of the territorial distribution of expenditure, and the tensions that exist between Cohesion policy and domestic policies have not been extensively and comprehensively explored or taken into account at the stage of policy preparation.

This leads to the second main theme discussed in the paper, **the importance of coordination initiatives and frameworks to assist external coherence.** The research has highlighted the measures used by Member States to coordinate different policies. These are both 'institutional' and 'strategic' and include both long-term arrangements and more recent measures. On the institutional side, the research has illustrated examples of coordination of different policies via: long-standing institutional arrangements and recent government reforms; the targeting of increased cross-sectoral integration at the regional level with a reorganisation of functions at this level; and the achievement of increased integration between domestic and EU co-funded regional policy through increased operational integration at the level of policy instruments. Among the 'strategic' measures, the paper presented cases of: the coordination of domestic and EU co-funded regional

policies achieved at national level through the NSRF (for instance in **Sweden** and **Italy**); the integration of the regional dimension in sectoral policies through spatial planning (notably in Poland, **Austria** and Wales); and coordination of regional policy with wider economic development policies at the regional level (as in **England**, **Italy**, **Finland** and **Sweden**). However, the effectiveness of such measures warrants a more thorough assessment.

The last theme explored by the paper is **the 'internal' coherence of Cohesion policy**, i.e. its internal functioning. This also presents challenges and contradictions that may unintentionally hinder the attainment of the goals of the policy. An extensive range of literature and policy research has already been produced on this topic; for this reason, the paper presents only a summary review of the most important of these tensions. They relate to the policy's strategic and territorial focus and to the administration of the policy, perceived to be too burdensome and formalistic (and thus not in line with policymaker aspirations for an increased results-orientation) and also unbalanced towards financial accountability as opposed to final outcomes. Some suggestions to overcome these limitations were presented in the Barca Report,[134] but there is not yet consensus on the reforms needed to strengthen 'internal' coherence of Cohesion policy.

These conclusions raise a number of questions for discussion during the EoRPA meeting.

1. External policy coherence

- To what extent does the paper identify the main issues for the EoRPA countries with respect to the degree of coherence that exists between Cohesion policy and the domestic policies of Member States, both for regional development and more widely?

- Most Member States do not seem to have systems in place to monitor the flow of government expenditure to the regions. The sectoral mentality of national ministries and the involvement of sub-national governments in service delivery make this a particularly challenging task. Would developing such a system be seen as useful by EoRPA countries? If so, what reasons have prevented this? Where such a system is already in place, what are the main perceived benefits and lessons learnt?

- Cross-policy coordination can go two ways: domestic sectoral policies can be bound to comply with the need to contribute to the goals of Cohesion policy or, conversely, Cohesion policy can be used to meet the spending priorities of domestic sectoral policies. The variety of interventions eligible for Cohesion policy provides considerable scope for this. The outcomes of adopting one or the other approach can be expected to be different, although the increasing alignment of both (domestic policies and Cohesion policy) to the Lisbon agenda should in principle reduce the divergence in the end result of these two

[134] Barca, F. (2009) *An agenda for a reformed Cohesion policy. A place-based approach to meeting European Union challenges and expectations*, Independent report prepared at the request of Danuta Hübner, Commissioner for Regional Policy, April 2009.

approaches. To what extent does Cohesion policy dictate the agenda for domestic policies in the countries reviewed or, *vice-versa*, to what extent do the domestic policies of Member States inform the content of Cohesion policy programmes? Does the chosen approach support or hinder the achievement of the goals of Cohesion policy?

- Related, to what extent is the additionality of Cohesion policy brought into question by the way domestic policies and Cohesion policy interrelate with each other (not least in the light of the recent economic crisis and the constraints that this has placed on domestic budgets)? Should the mechanism for the verification of additionality be rethought (or should additionality be re-evaluated as a principle)?

2. External institutional coherence

- Over recent years, there has been a trend of devolution of responsibilities for regional policy delivery (and also more generally) in a number of Member States. This has led to increased attention on the issue of multi-level governance and vertical coordination (also beyond the traditional federal countries). Cross-policy coordination has been much less debated. To what extent do EoRPA countries see the need to reinforce the coordination that exists between Cohesion policy and domestic policies? Are the measures that exist in some countries, including those recently introduced, proving successful? Can any lessons be drawn from successful cases of cross-policy coordination?

4. Internal coherence

The main tensions with regard to the 'internal' coherence of Cohesion policy outlined in the paper relate to three factors: the appropriateness of the strategies pursued; their territorial focus; and the rules governing delivery.

- From a strategic perspective, research from the European Commission has argued that for the purpose of catching-up and growth, 'the available EU and national funds for investments should be concentrated on a clearly-defined hierarchy of objectives. Attempts to pursue simultaneously a wide range of objectives are likely to dilute the potential impact of public support'.[135] In the light of this, has the focus on the Lisbon agenda (with its wide-ranging remit) strengthened or weakened the ability of Cohesion policy to achieve its intended goals?

- From a territorial perspective, and with particular regard to countries with large portions of territory in Convergence areas, is this focus considered to have been conducive to the delivery of regional catching-up or is Cohesion policy losing sight of its main purpose?

[135] European Commission, Directorate-General for Economic and Financial Affairs (2000) *European Economy. The EU Economy: 2000 Review*, no. 70.

- What would be the two or three key reforms needed to strengthen the administrative efficiency of the policy? Should the rules of Cohesion policy be rendered more flexible in order to align more closely with domestic systems and practices?