

# Cohesion project characteristics and regional economic growth

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# Outline

1. Literature on EU cohesion policy
2. Our novel empirical methodology and results
3. Implications for cohesion policy reform

# Literature on cohesion policy is inconclusive

- Some papers find positive long-term impacts, others find positive but only short-term impacts, others find no impact at all or even negative impacts
- Major factors complicating empirical assessments: complex local environments, the diversity of policy interventions beyond cohesion policy, varying time frames, cross-regional spill-over effects, lack of appropriate data for the analysis, certain important factors are not measurable, various econometric problems

# We use a novel empirical methodology

- Two steps:
  1. We **estimate ‘unexplained economic growth’** in the cross-section of NUTS-2 and NUTS-3 regions 2003-2015 by controlling for the influence of various region-specific factors (but not cohesion policy)
  2. We **analyse the relationship** of ‘unexplained economic growth’ with about two-dozen project-specific characteristics, including indicators related to inter-regional projects

# Two caveats

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

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

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

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

The literature claiming causality suffers from major problems.

# First step regression, statistically significant control variables

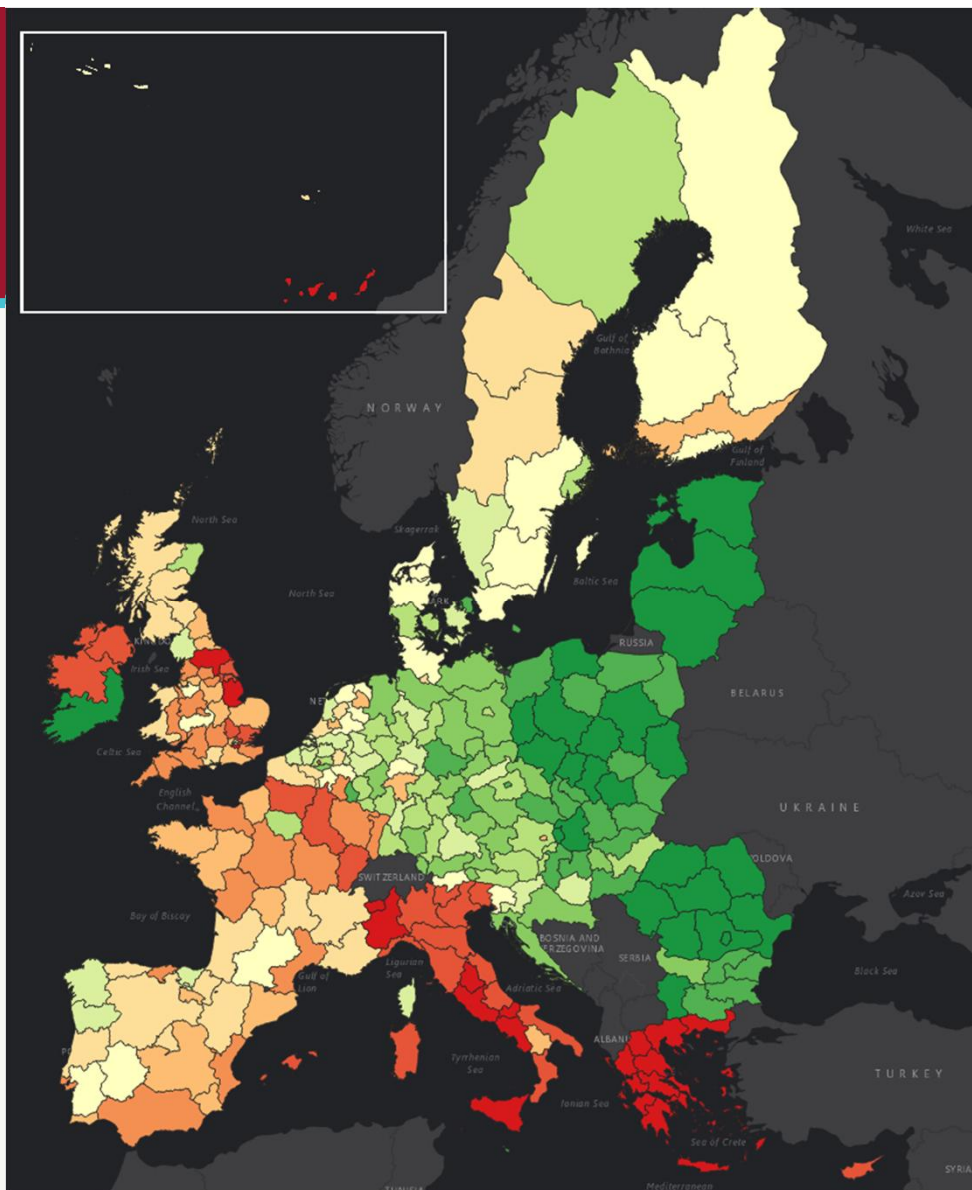
- GDP per capita in 2003,
- capital income ratio in 2003,
- percentage of employment in the tertiary sector in 2003,
- growth in population between 2000 and 2003,
- population density in 2003,
- quality of governance in 2010,
- percentage from 25-64 year olds with tertiary education in 2003,
- R&D personnel in percentage of total employment in 2003.

# Actual economic growth

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

*Regions in dark green: fastest actual economic growth*

*Regions in dark red: slowest*

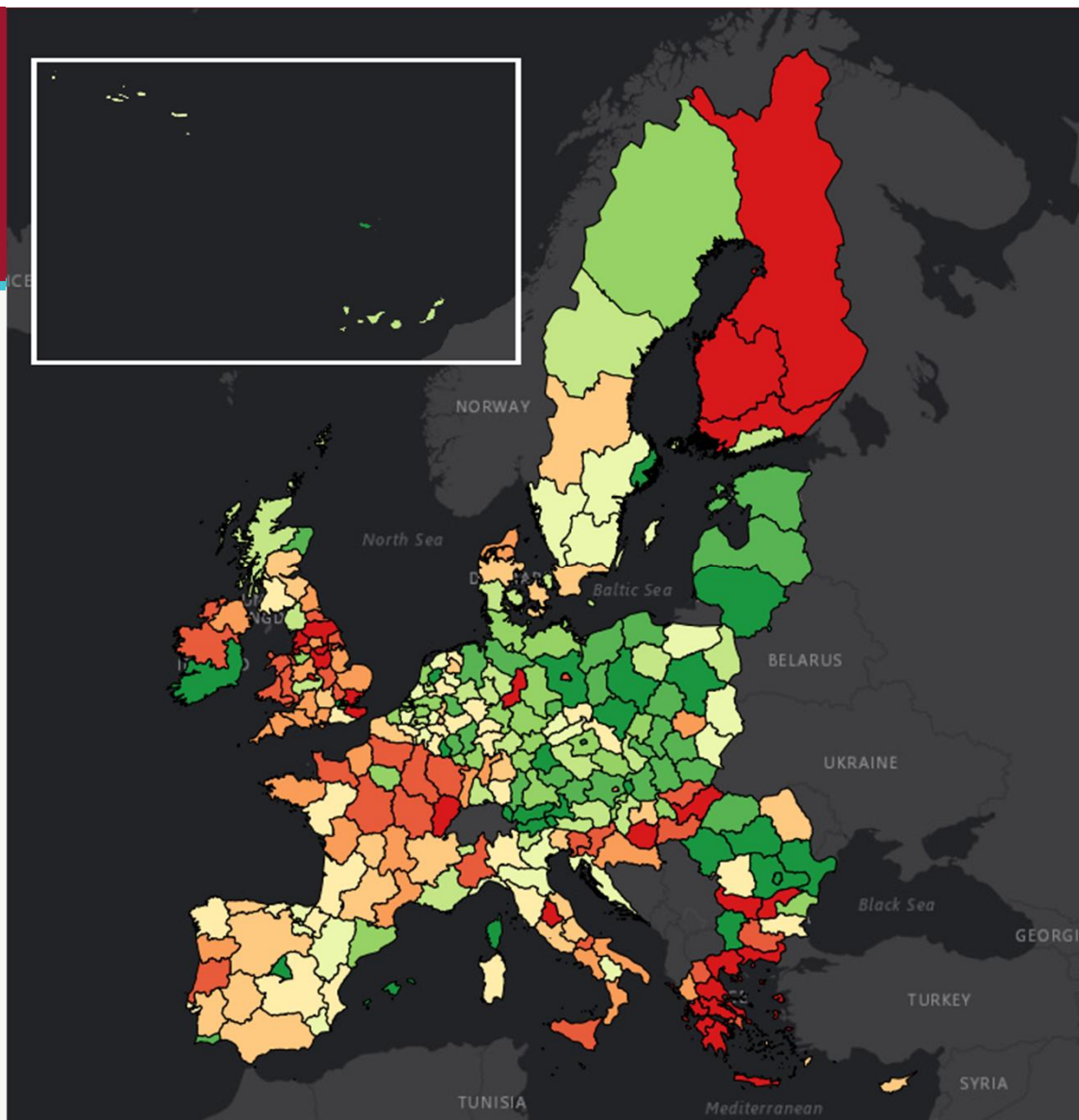


# Unexplained economic growth

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

*Regions in dark green: fastest unexplained economic growth*

*Regions in dark red: slowest*





# Second step, we conducted two types of analysis

- Two types of analysis:
  1. A correlation analysis across the whole EU
  2. A quartile analysis by country, in which we contrasted only the best and worst performers within each country, and then averaged the differences across the EU
- Rationales:
  1. Highlight patterns systematic over all regions of the EU
  2. Control for country-specific characteristics & focus only on the best and the worst performers

# Two data sources for project characteristics

1. '4P dataset': European Commission Regional Policy website, where up to four projects per NUTS-2 region are listed. There are 606 unique projects, which together account for 3.2% of the total ESIF budget in 2007-2013.
2. 'interregional dataset': provided by the Interact Programme ([keep.eu](http://keep.eu)), includes 94 percent of the total number of interregional projects under the ERDF in 2007-2013.

# Key empirical findings

The best performing regions have on average projects with:

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

# Specific results for inter-regional projects

- While funds received under the ERDF as a whole are not statistically associated with unexplained economic growth, projects under the interregional umbrella are
- The total number of interregional projects and an estimate of how much budget goes into the region correlate positively with the region's unexplained economic growth
- Participation in inter-regional projects matters more than their leadership
- Cross-border (connecting regions from different countries) vs national (connecting two or more regions from the same country) inter-regional projects: we find that only cross-border inter-regional projects are positively associated with better economic performance

# Rationales for cross-border interregional projects

- Resorting to long-distance partnerships might bring about efficiency gains for project design, procedures and implementation
- In order to engage in a cross-border cooperation, partners probably consider more ambitious and far-reaching projects, since otherwise the extra administrative burden to work together with entities from other countries might not be worthwhile
- Cross-border cooperation potentially provides fruitful knowledge transfers
- Projects involving partners from two or more different countries could be less likely prone to corruption and waste of resources, as institutions and businesses find themselves outside their usual network of relationships and within a new, unfamiliar, environment, where playing by the rules could be the safest and most rational choice

# Implications for cohesion policy reform

1. The beneficial effects of longer duration and more concentration of priorities are consistent with the importance of strategic focus in cohesion policy
2. We recommend more interregional projects (just 4.8% of the ERDF spending in the 2007-2013 MFF was dedicated to them)
3. Beneficial impact of lower national co-financing rate likely reflect fiscal constraints after the 2008 global financial crisis. . Thus, the extent of fiscal constraints, or the lack of it, could be a factor to determine the co-financing rate
4. The importance of a locally-led perspective should be reconciled with our finding of better centralised management, e.g. locally-led demand for projects should be combined with higher-level allocation, oversight and management. Improving administrative capacity is essential.

*Thank you for your attention*