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**REGIONAL DEVELOPMENT STRATEGIES
AND POLICIES
IN CENTRAL AND EASTERN EUROPE**



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EU COHESION POLICY IN CENTRAL AND EASTERN EUROPE: A COMPARATIVE ANALYSIS

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The purpose of this study is to shed light on the spending patterns and impacts of the EU Funds (2007 – 2013) in Central and Eastern European countries which are also EU Member States: Bulgaria, the Czech Republic, Estonia, Lithuania, Latvia, Hungary, Poland, Romania, Slovakia and Slovenia. With more than half of the total allocations from the European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF) going to the CEE countries, the region has made important progresses in supporting development investments throughout the crisis period, but there is much room for improvement in terms of efficiency in the years to come. By far, the most important allocations went to Environment and Transport, for which almost all of the countries spent about a half of their total allocations. The most striking differences in CEE countries spending patterns are those related to the allocations for Research, Development and Innovation (RTD) and Culture and social infrastructure. Policy implications in terms of impacts on economic development and the key lessons for the future are discussed in the final part of the paper.

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Introduction

Central and Eastern European (CEE) countries are usually referred in the literature as the group of countries that were part of the Communist Bloc and moved to open market economies after the collapse of the Iron Curtain, in 1989-1990. Mainstream economists consider that "the transition is over" for some of the countries that joined the European Union in 2004 and 2007 and this is reflected in productivity patterns that resemble those of advanced market economies (Alam et al., 2008). The International Monetary Fund (IMF) identifies a number of distinct periods of change for the first 25 years of transition in the CEE region: initial stabilization (1990-1993), market reform (1994-1996), turmoil and recovery (1997 - 2001), the "boom" (2002 - 2007), the crisis (2008 - 2013) and the present (2014 – on-going), when CEE countries are mostly functioning market economies (IMF, 2014). So far, the countries have enjoyed strong economic growth from the reallocation of labour and capital to more productive sectors, have opened their markets to the external world and have attracted substantial flows of foreign direct investments. However, different authors point to the existence of an independent model of capitalism developed by the CEE countries, which is distinguishable by three main aspects: lack of (national) capital, weak civil society and high influence by the European Union and other international institutions (Farkas, 2011); some say the countries adopted uncritically the policies consistent first with the action lines of Washington Consensus and then with the requirements of the European Union memberships, whose effects can be seen in a convergence in growth rates, but not in a catch-up in real income terms (Podkaminer, 2013). The accession to the European Union brought in the region important flows of capital, information, people, technology and trade, but also raised local institutions and legal frameworks towards the EU standards (IMF, 2014); meanwhile, the investments associated with the EU funding in the form of structural funds and agricultural support were providential for the CEE countries in the last decade.

The purpose of our paper is to shed light on the spending patterns and impacts of the EU Funds (2007 - 2013) in 10 Central and Eastern European countries which are also

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EU Member States: Bulgaria, the Czech Republic, Estonia, Lithuania, Latvia, Hungary, Poland, Romania, Slovakia and Slovenia. Croatia was not included in the study – as it entered the EU in 2013, at the end of the programming period. The study considers the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF), whose main objectives were: (a) to speed up the convergence of the least-developed Member States and regions, (b) to strengthen the competitiveness and attractiveness, as well as employment outside the least-developed regions and (c) to strengthen cross-border, transnational, interregional cooperation and exchange of experience (EU, 2007).

Some important remarks should be acknowledged from the very beginning of our study.

First, except from Slovenia and Czech Republic – which are "moderately developed countries", with a GDP per head between 75% and 90% of the EU average, the countries in the CEE region are less developed Member States, with a GDP per head below 75% of the EU average (Dijkstra, 2014). Consequently, since the European Cohesion policy places a particular emphasis on helping the less developed regions across Europe to undertake investment, CEE countries were the main beneficiaries of this policy (1783 euro/capita at the CEE level vs. 683 euro/capita at the EU level), but with large differences between the CEE countries (less than 1000 euro/ capita for Bulgaria and Romania vs. more than 2500 euro/ capita for Czech Republic, Estonia and Hungary). In total, the amounts allocated to the CEE region constituted more than a half of the total EU funds for 2007 - 2013 (*Table no. 1*).

Table no. 1

Basic CEE information and EU Funds 2007 - 2013

Countries (symbol)	Population (million, 2015)	GDP/capita current prices (euro/ capita, 2015)	Cohesion policy allocations (2007 - 2013)	
			(million euro)	(million euro/ capita)
Bulgaria (BG)	7,2	6300	6853	951
Czech Republic (CZ)	10,5	15800	26692	2542
Estonia (EE)	1,3	15400	3456	2658
Latvia (LV)	1,9	12300	4620	2431
Lithuania (LT)	2,9	12800	6885	2374
Hungary (HU)	9,8	11000	25307	2582
Poland (PL)	38	11200	67284	1770
Romania (RO)	19,8	8100	19668	993
Slovenia (SI)	2	18700	4205	2102
Slovakia (SK)	5,4	14500	11588	2145
Central and Eastern Europe (CEE)	99	12610	176558	1783
European Union (EU)	508	28800	347410	683

Source: Eurostat 2016 (demo_pjan), (nama_10_pc); EU (2007)

Second, it should be pointed here the fact the for CEE countries it was no legal obligation to earmark expenditure, so the countries established their logic of intervention through the National Strategic Framework Programmes. The great majority of the regions in the CEE countries were eligible under the Convergence Objective, whose aim was to improve conditions for growth and employment, to increase the quality of investment in physical and human capital, the development of innovation and of the knowledge society, the adaptability to economic and social changes and the quality of environment and administrative efficiency (Council Regulation EC No. 1083/2006). Given their lagging status, CEE countries had multiple choices for investments in the areas of socio-economic weakness, as they all faced – to different degrees - underdeveloped transport infrastructure,

low levels of labour productivity, shrinking populations, low performances in innovation, high energy consumption, high rates of poverty and social exclusion, high regional polarization and uneven development, severe labour shortages etc. (Dijkstra, 2014). Accordingly, CEE countries established their priorities in line with their development needs and set different targets for the investments, as follow:

- to increase GDP growth rate (Bulgaria, Latvia, Slovenia, Romania), the GDP per capita (Poland), to attain the economic level of the EU/ most advanced countries (Czech Republic, Slovakia), to raise the production levels of enterprises (Hungary), to stimulate research investments by companies (Estonia) and to raise research and development expenditure (Lithuania, Latvia, Poland, Czech Republic);
- to create new jobs (Bulgaria, Hungary), increase employment rates (Estonia, Lithuania, Latvia, Poland, Czech Republic, Slovakia, Slovenia, Romania), to lower unemployment rates (Latvia) and to increase participation to education (Latvia);
- to increase the length of motorway and railway infrastructure (Poland), to invest in new or renovated roads (Romania), to raise internet – connected households (Estonia);
- to improve recycling rates of solid waste (Estonia), to increase the proportion of citizens with wastewater management services (Latvia), to keep primary energy consumption at lower levels (Estonia), to increase the share of renewable energy use (Poland).

(Source: EU, 2008)

Third, it is useful to highlight from the start the lack of administrative capacity and experience in dealing with European funds, especially for Romania and Bulgaria, as 2007 - 2013 was their first multi-annual programming period within the European Union. As a result, after the first seven years of implementation (end of 2013), the CEE countries contracted altogether 97% of their budget, but the average payment ratio was of only 63%, the largest differences between contracted and paid grants having been observed in Romania (67%) and Bulgaria (68%) (KPMG, 2014). However, with the n+2/ n+3 extensions from the EU, CEE countries raised their payment ratios to more than 90% by the end of 2015, with Hungary, Lithuania and Slovenia being the best performing countries and Romania and Bulgaria the worst ones (KPMG, 2016).

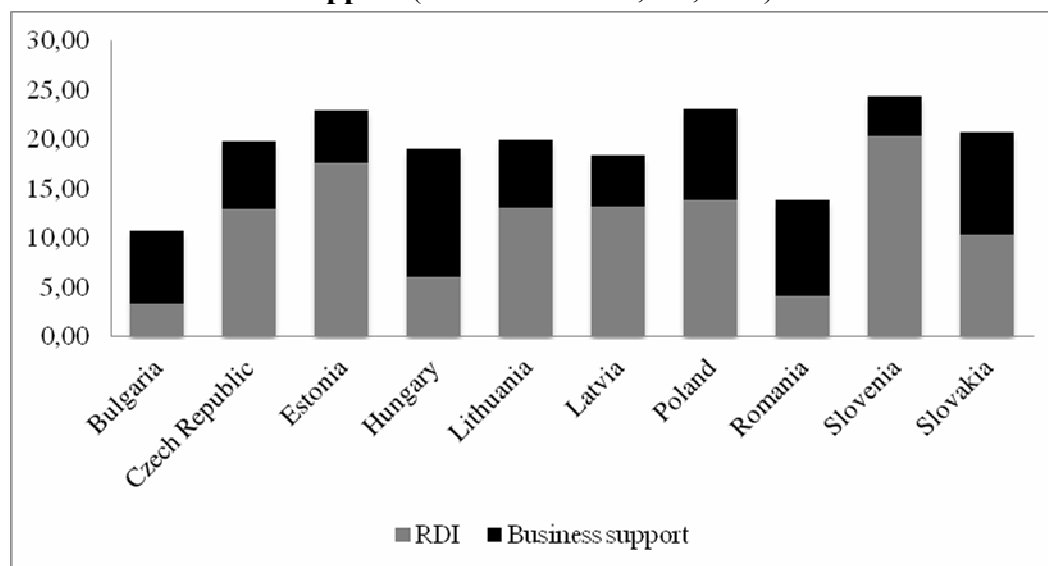
In line with these remarks, our paper goes "beyond the absorption" debate and compares the total spending and results of the EU Cohesion Policy in the CEE region by four broad spending categories, namely: (1) Research, Development & Innovation and Business Support; (2) Environment and Transport; (3) Culture, social infrastructure and urban development; and (4) Human Capital and Institutional Capacity. We are particularly interested in finding out if the intervention logic was significantly different within the CEE region (**Part 2**). Policy implications in terms of impacts on economic development and the key lessons for the future are discussed in the final part of the paper (**Results and Conclusions**).

2. Spending patterns of EU funds in CEE countries (2007 - 2013)

2.1. RDI and Business Support

CEE countries have spent about 20% of their total allocations from ERDF, CF and ESF for support to enterprises and RDI, with large variations between the less developed countries (Bulgaria and Romania) and the moderately developed ones, i.e. Slovenia. At the same time, large variations can also be found between the allocations to RDI and support to enterprises, with Slovenia being the leader for investments in RDI and Hungary for business support (*Figure no. 1*).

Total spending for Research, Development & Innovation (RDI) and Business support (% of total ERDF, CF, ESF)



Source: Own computation based on data from *Ex-post evaluations of ERDF & CF and ESF* (EC, 2016a and 2016b) and Country factsheets (EC, 2016d and EC, 2016e)

These figures should be analysed in a wider context, while taking stock of the characteristics of the productive and innovative environments in the CEE region. We should therefore acknowledge the fact that all the countries face longstanding structural difficulties and have very low performances for innovation: except for the capital regions in Slovenia and Slovakia, all the other parts of the CEE are moderate or modest innovators, according to the Regional Innovation Scoreboard 2016; moreover, the regional performance in innovation follows a decreasing trend, given the preference of CEE countries for adopting technologies developed elsewhere and not by themselves (Hollanders et al., 2016). To this we can add the fact that Structural funds often represented the only source of funding for industrial policies in the EU12 (CEE countries plus Cyprus and Malta), as compared to the EU15 - where the proportion of national state aid was much higher – so that this type of support was also meant to counterbalance the sharp decline in governmental expenditure in a period of severe economic crisis (EC, 2016c, WP2).

In what concerns the support to SMEs, the main achievements reported refer to the creation of about 300000 new jobs and to significant investments in new machinery and equipment - that have lead to improvements in production and labour productivity. SMEs were given a very high priority in Hungary, where the number of new jobs created – more than 100000 – was higher than in any other country in the region; at the other end of the spectrum – Slovenia concentrated its investments in innovation and RDI projects, while encouraging mostly the new and growing businesses. In addition, the support offered through financial instruments (loan guarantees, subsidized interest rates, guarantees, venture capital etc.) had a positive effect on investments, thus reducing the difficulties of SMEs to access finances and to overcome the constraints they faced on the capital markets during the crisis. Among the CEE countries, the Czech Republic, Hungary and Poland also devoted high shares of funds to the large enterprises, be it for technological upgrading, for investments in large-scale projects or for increasing employment in less developed regions and these investments proved to be very successful in increasing employment and stimulating job creation (EC, 2016a; EC, 2016d).

Strengthening the RDI profile of the CEE region was one of the most important targets for Cohesion policy 2007 – 2013, as it was meant to deliver the main objectives of Lisbon Strategy and Europe 2020: to turn Europe into "the most competitive and dynamic knowledge – based economy in the world" or, to transform it into a "smart, sustainable and inclusive" economy. To this end, the CEE countries supported about 10000 new RTD projects (of which about 3900 in Hungary) and created about 15000 new research jobs, of which more than 12000 of in Poland, the Czech Republic and Hungary; these countries were also the leaders in promoting the collaboration between SMEs and research organizations through financing cooperation projects (EC, 2016a; EC, 2016d). Unfortunately, as shown before, the position of CEE countries in the Regional Innovation Scoreboard 2016 did not improve, but deteriorated, and this situation was attributed to a lack of strategic concentration of funds, which reduced the expected effects of investments. On the one hand, we should acknowledge here the very low allocations to RDI and innovation by Romania and Bulgaria, but also some other weaknesses in the implementation of funds in the CEE region, such as the lack of a coherent business strategy at the regional level, a concentration of RDI projects in the most developed regions or the fact the some enterprises were supported multiple times (EC, 2016a; EC, 2016d). However, many of the effects of investments in RDI and innovation are long-termed, so they may become visible in the years to come.

Some best practices in using the funds for business support, RDI and innovation are available all across the CEE region, such as the creation of a state-of-the-art facility for research in the field of nuclear physics (ELI: Extreme Light Infrastructure), which is hosted in the Czech Republic, Hungary and Romania, the establishment of some major research centres that deal with biomedical and health research, advanced materials and nanotechnologies, electronics and supercomputers etc. or the setting up of new pioneering plants and production lines to boost employment and innovation (DG Regio, 2016).

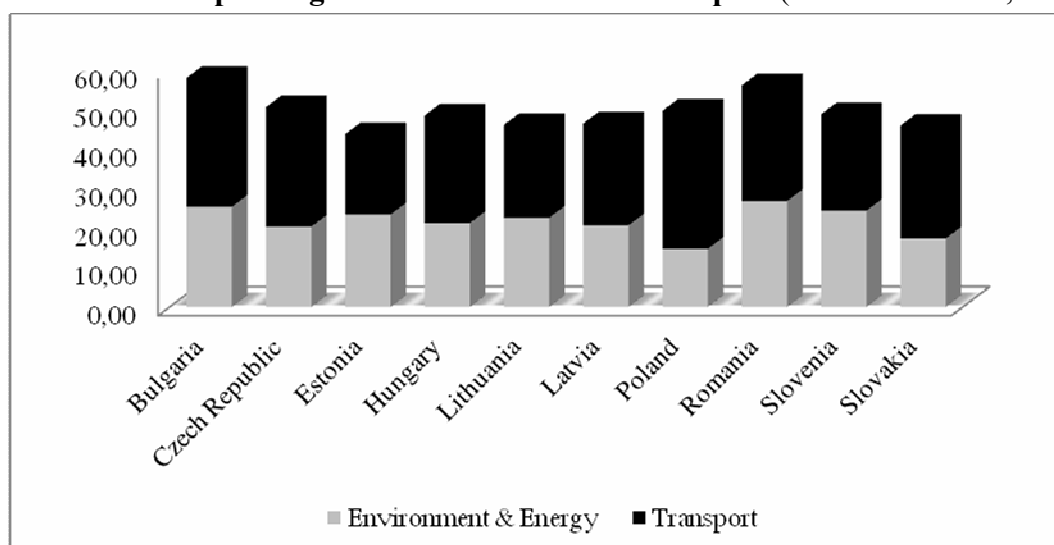
The evaluations carried out so far show there is still much room for improvement to tackle obstacles to growth and innovation through Cohesion Policy funds. On the one hand, the logic of intervention should be more clearly oriented towards final, not intermediary aims – e.g. to increase productivity, sales and export vs. to increase the main production factors: capital, labour, R&D capacity (EC, 2016c, WP2). On the other hand, to improve cost-efficiency, policy-makers are expected to encourage risk-taking attitudes for a larger number of actors and to reinforce behavioural changes, thus eliminating the "deadweight" element in the funding provided (Dijksta, 2014). Not last, concentrating investments on thematic priorities and on cooperative, not individual projects is a condition imposed by the European Union to meet the prerequisites of smart specialization and smart growth for each European place or territory.

2.2. Environment and Transport

The investments in environmental systems and transportation had by far the highest shares in the total allocations of 2007 – 2013 period and they accounted together for more than a half of the total spending from of European Structural Funds in Central and Eastern Europe (*Figure no. 2*).

Figure no. 2

Total spending for Environment and Transport (% of total ERDF, CF, ESF)



Source: Own computation based on data from *Ex-post evaluations of ERDF & CF and ESF* (EC, 2016a and 2016b) and Country factsheets (EC, 2016d and EC, 2016e)

Investments in environment and energy were connected with water supply, water and waste management, air quality, pollution prevention, climate change mitigation, rehabilitation of physical environment, protection of biodiversity, support for sustainable production patterns, improvement of energy efficiency and development of renewable energies etc. (EU, 2007). The most important achievements are those related to a significant shift in the disposal of waste from landfill towards recycling, in line with the EU legislation, especially in the Czech Republic, Hungary, Lithuania, Poland and Slovenia, where the proportion of waste being recycled increased by over 10 percentage points (EC, 2016a). As such, Central and Eastern European Countries have built biological treatment facilities for waste and wastewater, developed waste collection and management centres, upgraded the sewerage capacity, closed the landfills, improved the supply of clean water, improved the energy use in residential and public buildings, created additional capacity for energy production – especially for renewable energy etc. Despite huge investments, the evaluations indicated that many projects were still in progress at the end of the financial framework (EC, 2016d) and the EU objectives for waste management are still far from being realized, especially in the case of Romania and Slovakia, where the percentage of municipal waste recycled is less than 5%. In the case of energy, the allocations were much smaller and the evaluations have pointed to the generalized lack of strategic planning, the weak coordination between the national, regional and local level policy making and to the need of complementing financial support by non-financial measures, such as energy audits, certification schemes and building regulations (EC, 2016c, WP6).

Transport investments were intended to improve the trans-European networks and the links to the TEN-T network, so as to promote the access to and quality of passenger and good services, to achieve a more balanced modal split and to reduce the environmental impacts (EU, 2007). In total, Central and Eastern European Countries have built about 3500 km of new roads – of which more than half in Poland – and about 900 km of new TEN-T railroads, of which about half in Bulgaria and the Czech Republic (EC, 2016c, WP5). The focus was on the road infrastructure and some major success stories in transport systems are those related to the construction of motorways (e.g. Trakia Motorway in Bulgaria, Cernavoda – Constanta and Sibiu - Orastie Motorways in Romania, Torun –

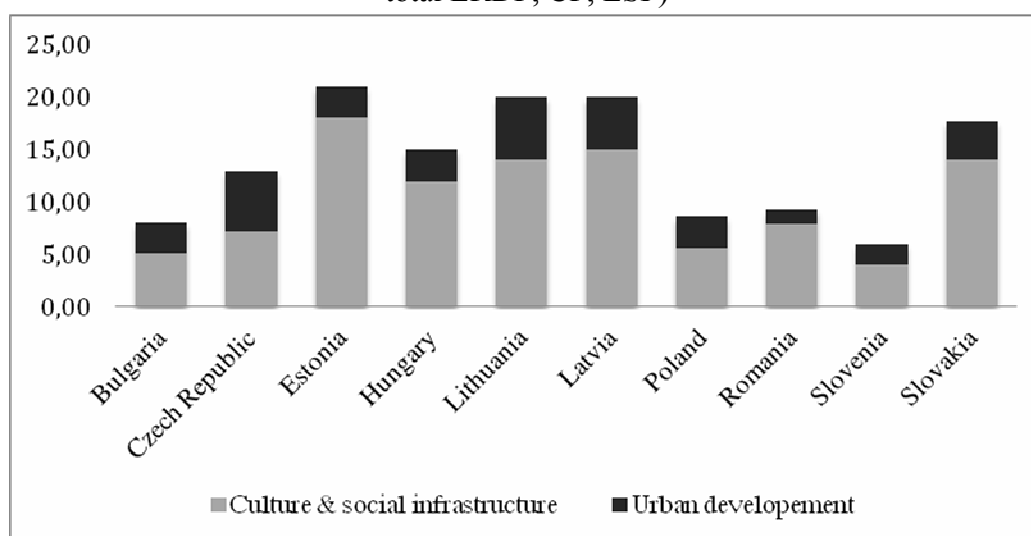
Lodz Motorway in Poland etc.), the modernization and upgrading of urban networks through metro systems, new tramlines etc. or the construction/ improvement of rail connections, airports and ports (DG Regio, 2016). The results were much better in those countries where European investments were complemented by national investments - not only for co-financing and where important savings were made during the tendering process (i.e. Bulgaria, the Czech Republic). At the same time, a number of major weaknesses can be observed that include important delays and difficulties in implementing transport projects, no plans for the coverage of maintenance costs or a low attention paid to regional interconnections due to the focus on TEN-T projects (EC, 2016d). Despite these difficulties, it is certain that without the support offered by the EU Cohesion policy, all these investments would have been impossible, even more as the financial framework for 2007 – 2013 overlapped with the economic crisis and with the dramatic decrease in public investments.

2.3. Culture, social infrastructure and urban development

Figure no. 3 points out that the allocations for culture and social infrastructure in the period 2007-2013 were significant in Baltic countries, Slovakia and Hungary, given the very high investments in healthcare and educational facilities. At the same time, together with the Czech Republic, Baltic countries stand out by allocating more substantial funds to urban development compared to the other countries in the region, i.e. to Romania and Slovenia (Figure no. 3).

Figure no. 3

Total spending for Culture, social infrastructure and Urban development (% of total ERDF, CF, ESF)



Source: Own computation based on data from *Ex-post evaluations of ERDF & CF and ESF* (EC, 2016a and 2016b) and *Country factsheets* (EC, 2016d and EC, 2016e)

Culture and tourism are very complex branches and the EU investments in these areas were meant to support socio-economic development, enhance regional attractiveness and promote social inclusion, especially in Convergence regions (EU, 2007). Preserving the cultural heritage and developing cultural infrastructure were the main rationales for the support offered to the *cultural* field, while improving tourist services, protecting natural assets, developing specialized touristic products and investing in individual hotels and restaurants were the targets for the interventions in the *tourism* field. On the whole, culture and tourism were not accorded high priority in Central and Eastern Europe and only few countries viewed culture and tourism as being interrelated: for example, in Poland, culture

has been viewed as a pull factor for the development of tourism and the investments in the construction of the Opera and Philharmonics in the eastern part of the country were meant to attract new tourists and to increase country's attractiveness; similarly, Baltic countries supported the cultural sector (arts, entertainment etc.) as a mean to improve their touristic offer, which is one of the most important growth factors in the region. As a direct result of ERDF support, Central and Eastern European Countries created new jobs (the Czech Republic, Poland, Lithuania, Slovakia, Slovenia), strengthened social cohesion, reduced regional disparities etc. (EC, 2016d). Unlike the more developed countries, Central and European Countries were primarily concerned with physical investments (given their different initial situation) and addressed more the objectives related to social cohesion than those related to innovation and economic diversification (EC, 2016c, WP9).

Investments in *social infrastructures* (education, health, childcare, housing etc.) were expected to contribute to regional and local development and increasing the quality of life (EU, 2007). In almost all the countries, the bulk of investments went to healthcare facilities (sanitary equipment, medical machinery, purchase of ambulances, development of specialized out-patient care etc.) and education establishments (construction, modernisation and equipping of schools) and to a little extent to children centres and other forms of social infrastructure. Substantial budgets were allocated to social infrastructure by Hungary, which expected a "country-wide renewal of the healthcare" and by Slovakia, whose allocation per capita were around five times higher than the EU average; similarly, in Baltic countries, per capital allocations exceeded 200 euro (EC, 2016d).

ERDF support to *urban development* took the form of integrated territorial investments and was expected to meet the challenges typical of urban areas, but also to create links between urban and rural areas, i.e. through the rehabilitation of physical environment, brownfield development, provision of improved public services, creation of urban networks and urban-rural linkages. The main achievements in Central and Eastern Europe were related to the drafting of integrated plans and strategies for urban development (i.e. the Czech Republic developed *Integrated Plans for Urban Development* for all cities with more than 50000 inhabitants) and to some infrastructure improvements (i.e. creation of sport and leisure facilities, public places etc.) (EC, 2016a). However, the allocations for integrated urban development differed significantly between countries, with Romania and Slovenia having been at the lower end of the spectrum (EC, 2016c, WP10).

When estimating the final outcomes of investments in culture, tourism, social infrastructure and urban development, it is important to note the fact that the evidence on achievements from the investments is scarce: most of the indicators used in practice for these fields were those related to the number of projects carried out, which did not convey the real impact (Dijkstra, 2014). So far, EU Commission's evaluations have acknowledged the weak indicator system, but put forward some "drivers of success" to be considered by the Central and Eastern European Countries in the years to come: to keep the focus on *integrated strategies*, where *integration* is conceptualized as the involvement of local actors and the establishment of target groups and to focus more on softer and more bottom-up interventions, after they have filled in the gaps in physical infrastructure (EC, 2016c, WP10).

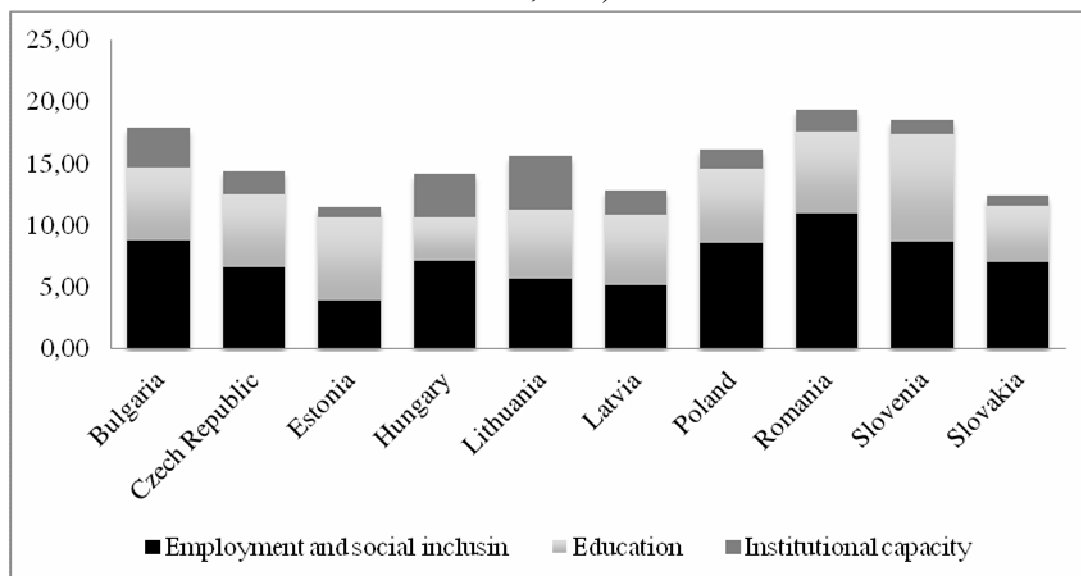
2.4. Human Capital and Institutional Capacity

Unlike the previous categories of expenditure, the investments in human capital and institutional capacity were financed through the European Social Fund, whose objectives for 2007 – 2013 were to support the adaptability/ mobility of workers and enterprises, increase access to employment, reinforce social inclusion, improve investments in education and lifelong learning systems and strengthen the efficiency of administration

(EU, 2007). Within the Central and Eastern European region, Romania, Bulgaria and Slovenia have assigned the highest shares of their total allocation to the purposes mentioned above (*Figure no. 4*).

Figure no. 4

Total spending for Human Capital and Institutional Capacity (% of total ERDF, CF, ESF)



Source: Own computation based on data from *Ex-post evaluations of ERDF & CF and ESF* (EC, 2016a and 2016b) and *Country factsheets* (EC, 2016d and EC, 2016e)

The results of the interventions supported through the European Social Fund are impressive in terms of participation: out of the 33 million participants in ESF in Central and Eastern European countries, about 2 million are reported to be in employment directly or after the intervention and around 4 million received a qualification, of which more than half in the Czech Republic. About 2,8 million persons reported another positive result, such as improving skills and competences or successfully completing the intervention (EC, 2016b). Member States' evaluations show that the ESF was instrumental in reaching new target groups, such as Roma and ethnic minorities, pupils with special education needs and disabilities, people not in employment, education or training (NEETs), young and old people and other vulnerable groups; at the same time, the support offered to entrepreneurship in its many forms (e.g. self-employment, social entrepreneurship) was vital to increasing employment, while the support offered to the educational sector contributed significantly to progress in reforms, introduction of innovative approaches and improved strategies for linking education to the labour market. Nor last, the introduction of new products (e.g. online administrative services), procedures and audits was a strong mean to optimise the work of administration and the fact that the ESF investments represented more than half of the total expenditure on active labour market policies in Central and Eastern Europe offered significant volume effects, but also increases in the range and quality of policy measures (EC, 2016e).

In terms of efficiency, the average cost per participation in ESF interventions varied greatly across the countries and across the interventions, from about 300 euro in the Czech Republic to more than 1200 euro in Romania, with the costs for Access to Employment and Social Inclusion being much higher than those for Human Capital (EC, 2016a). The effectiveness of implementation was largely impacted by the relatively slow implementation of the programmes, the delays due to the lack of adequate legislation, the changes in the external environment or the bureaucratic procedures for application,

evaluation and reporting (EC, 2016e). Despite these drawbacks, the clearest socio-economic effects were at the micro level, as significant parts of the population were reached by the intervention and improved their position on the labour market, but also at the meso-level, where important reforms of the institutions took place during this programming period (better regulation, introduction of quality systems, improved financial management and policy planning etc.). At the macro level, several achievements can be also highlighted, such as an increase in the employment rate through the creation of jobs and the stimulation of entrepreneurship, the improvement of education and labour market indicators or the decrease in the rates of people at risk of poverty (EC, 2016a). However, the evidence is scarce in relation to some important impact indicators for all Central and Eastern European Countries (e.g. the productivity levels of the employees that were trained through ESF programmes, the changes in the attitudes of employers in relation to the disadvantaged groups etc.) and the current system of indicators should be revised and linked more to the long-term strategic goals.

Results and conclusions

From the official position of "Friends of Cohesion", Central and Eastern European countries were the main net beneficiaries of the Cohesion Policy 2007 – 2013 in the European Union and this paper has highlighted the many benefits of investments in R&D, business support, infrastructure and environment, urban development or human capital. Our aim was to compare the spending patterns of European Structural Funds 2007 – 2013 in Central and Eastern European countries and to find out if, in the absence of a legal obligation to earmark expenditure, the logic of intervention was substantially different across the countries. To this end, we computed the standard deviations within each category of expenditure and distinguished the low priority (L) and high priority (H) areas by subtracting, respectively adding standard deviation to the average scores in each area of intervention, in a comparative perspective (*Table no. 2*).

Table no. 2

Spending patterns of European Structural Funds 2007 – 2013 in Central and Eastern Europe

Country	RDI	Business support	Environment & Energy	Transport	Culture and social infrast.	Urban development	Employment & Social incl.	Education	Instit. capacity
Bulgaria	L		H	H	L				H
Czech Republic						H			
Estonia	H			L	H		L		L
Hungary	L	H						L	H
Lithuania				L		H			
Latvia					H	H			
Poland			L	H	L				
Romania	L		H			L	H		
Slovenia	H	L			L			H	L
Slovakia			L					L	
<i>Stdev</i>	<i>5,601</i>	<i>2,742</i>	<i>3,688</i>	<i>4,403</i>	<i>4,897</i>	<i>1,531</i>	<i>2,720</i>	<i>1,349</i>	<i>1,864</i>

L = low priority area (< mean minus standard deviation)

H = high priority area (> mean plus standard deviation)

Source: Own computation based on data from *Ex-post evaluations of ERDF & CF and ESF* (EC, 2016a and 2016b) and Country factsheets (EC, 2016d and EC, 2016e)

By far, the most striking differences in the spending patterns are those related to the allocations for RDI (standard deviation = 5,601), culture and social infrastructure (standard deviation = 4,897) and transport (standard deviation = 4,897), while some similarities can be observed in the logic of intervention for education, urban development and institutional capacity. Within the region, Slovenia and Estonia seem to be the countries with the most different profile, as they both invested more in Research, Development and Innovation and thus lowered the allocations for other categories. Further, Bulgaria, Hungary and Romania are all belonging to the group of countries that invested less in RDI, but more in business support, environmental infrastructure and institutional capacity, while Poland preferred the investments in transport more than those in environmental and social infrastructure. The Czech Republic, Slovakia, Latvia and Lithuania are the countries that fit best the median profile of investments in Central and Eastern Europe.

When looking behind the immediate results to impacts in terms of added value or contributions to growth and development, some points should be considered in advance. First, Cohesion Policy in itself has been accused for some major weaknesses such as the deficit in strategic planning in adopting territorial perspectives, a lack of focus on priorities and results and an obsessive attention paid to financial absorption and irregularities (Barca, 2009). Second, the majority of macroeconomic analyses and econometric studies focusing the impact of EU Cohesion Policy found a positive, but small impact on growth in less developed parts of the EU (EC, 2016a), as much as many impacts are expected to be long-termed (not visible yet) and the evaluations do not show if the outcomes might have occurred without the financial support provided (Dijkstra, 2014). Third, when looking for impacts, one should also consider some inherent risks of large-scale financial transfers, such as the crowding-out of productive private investments or the emergence of rent-seeking behaviours (Varga and Veld, 2011).

The macroeconomic models estimating the impact of ERDF and CF on GDP suggest that in 2015, the GDP was around 4,1% higher in Central and Eastern Europe, with the highest values for Hungary (+5,3%), Latvia (+5,1%) and Poland (+4,3%) and that the impact is expected to increase steadily overtime (EC, 2016c, WP14a); in the meantime, based on macroeconomic simulations, the ESF investments are estimated to have had a positive impact on GDP in Central and Eastern European countries (+1,5%), which is much higher than for the EU level (+0,25) (EC, 2016b). Similarly, the estimates of the Rholmo model show that the contribution of cohesion policy was more important to the economies of the less developed regions, considering the fact that they were the main beneficiaries of funding (EC, 2016c, WP14b). Not last, we should also point to the fact that European Structural Funds represented a major source of finance for Central and Eastern Europe, representing about 50% of government capital investments in the region (EC, 2016c, WP1)

Beside the quantitative results, many expected an increase in the influence of local actors in regional development and a change in territorial relations as a result of Cohesion policy, but existing evidence shows that there is no guarantee that the Structural Funds promote regionalisation in the CEE region (Bachtler and McMaster, 2007). This is explained by the fact that the tradition of centralisation still exists across the CEE member states and regional institutions are generally weak and lack capacity and resources. So far, the EU Cohesion Policy brought some changes in policy planning (i.e. regional policy objectives, instruments, territorial focus) and governance (i.e. the principles of partnerships and multi-level governance), but the pre-existing trends of centralization are still influential (Ferry and McMaster, 2013). With a view to the future, Central and Eastern European countries will be required to follow the thematic shifts in funding established through the

Financial Framework 2014 – 2020 and to increase their allocations to RDI, support to enterprises, employment and education, while reducing their infrastructure spending on environmental protection and transport (Gorzela, 2015). To turn their vision for socio-economic development into reality, these countries should go beyond the absorption debate and foster their competitive advantages through more growth-driven investments.

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WP2: Support to SMEs – Increasing research and innovation in SMEs and SME development

WP5: Transport

WP6: Environment

WP9: Culture and tourism

WP10: Urban development and social infrastructure

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