

CRITERIA FOR THE EFFICIENT USE OF COHESION SUPPORT

by Zsuzsanna Trón *

(Paper prepared for the Regional Studies Association Annual International Conference 2010
24-26 May, Pécs, Southern Hungary)

The paper is an evaluation of EU regional policy. It asks whether cohesion programmes contribute to the reduction of differences. In the first part of the study the results of three different methodological approaches are briefly examined to analyse effects. The answer to the question is not at all unambiguous, which is why the second half of the paper attempts to find those factors which may cause the regional policy of the EU to fail to achieve its desired objectives. According to the literature review these factors are (1) the crowding out effect, (2) the existence of rent-seeking and moral hazard, (3) the counterbalancing effect of national policies, (4) a concentration of economic activities (mainly industries representing high added value), and (5) the short time frame. Finally the study establishes those preconditions which, when present, can be considered necessary and sufficient for the redistributed funds to initiate growth.

It is a very generally accepted opinion that *supports arriving from the European Union generate a significant growth surplus*. The *positive expectations* regarding the potential effects of the structural funds are also *supported statistically by model simulations carried out by the European Commission*. However *empirical studies into the real effects of the funds reveal them to be quite modest* in terms of their *growth and economic catching up surplus*¹. The current chapter seeks to resolve this contradiction.

One of the major aims of the EU regional policy² is to help reduce the income gap between richer and poorer regions (i.e. the economic and territorial disparities). The other

* Zsuzsanna Trón is an assistant lecturer at the Faculty of Economics and Business Studies, University of Debrecen; e-mail: zsuzsanna.tron@econ.unideb.hu.

¹ More and more researchers have also drawn attention to the significant dangers in the supports (Váradi 2006).

² The expressions EU regional policy, EU cohesion policy and EU structural policy are used synonymously for the workings of the EU Structural Funds and Cohesion Fund, the main EU tools for helping the economic and social cohesion of member-states and regions. There were four structural funds in operation up to 2006: the European Regional Development Fund, the European Social Fund, the orientation section of the European Agriculture Guidance and Guarantee Fund, and the Financial Instrument for Fisheries Guidance. The cohesion fund gives support to larger programmes to develop environmental and transport infrastructure. Supports from structural funds are based on regions designated “target areas” or “objectives”, or within so-called Community Initiatives. Support from the Cohesion Fund can be applied for by the least developed member-states, which before 2006 were Greece, Portugal, Spain and the new member-states. For the system since 2007, see http://ec.europa.eu/regional_policy/policy/object/index_en.htm.

major objective is to boost employment and deal with problems of social exclusion (i.e. social disparities). The EU spends significant sums on dedicated programmes to do so. Examination of almost twenty years' experience with such policy at Community level poses the question of the extent to which the objectives have been attained, how effectively and appropriately European taxpayers' money has been spent. A well-founded answer can be obtained by analysing the policy, and this may help to formulate future policy.

1. The concept and development of evaluation in EU practice

Evaluation of regional policy is relatively recent in EU history. For various reasons, appropriate systems were not employed initially in 1975-88 (*Bachtler and Michie 1995*)³. But by 1988, when the European Commission received a big role in distributing Union funds, conflict between the Commission and member-states intensified. So the most important and longest-established aim of evaluation was accountability (*Batterbury 2006*). Thenceforward the Commission nominated the regions to receive financial aid, approved the development plans, and exercised oversight on development expenditure. The demand for accountability was all the stronger as these were the biggest items of EU budget expenditure.⁴ So the evaluation system, monitoring, financial management and auditing became stricter and broader in the EU, along with attendant legal responsibilities. The situation is complicated by the many organizations to be included in the evaluation process, from programme managers and partners, regional and national authorities, to various EU institutions, but in terms of results achieved through EU expenditure and achievement of programmes, each organization has different interests (*Bachtler and Wren 2006*).

Constructing an evaluation system for programmes in the member-states is not simple: there is no monitoring regulatory system at Community level. The need for monitoring is evident in Council regulations on the common budget but nothing is said about how to install it. For the 2007-13 budget period the EU issued only working papers and guidance documents to assist the evaluation process. It did not deal with establishing a regulatory system for programmes that affect the common budget.⁵

³ *Bachtler and Michie (1995)* list three reasons in their paper: (1) before 1988, Community aid and money devoted to regional development in memberstates were mixed together; (2) the division of duties between administrative bodies was badly coordinated; and (3) the evaluation methods differed widely across Europe, particularly as they lacked Community guidelines.

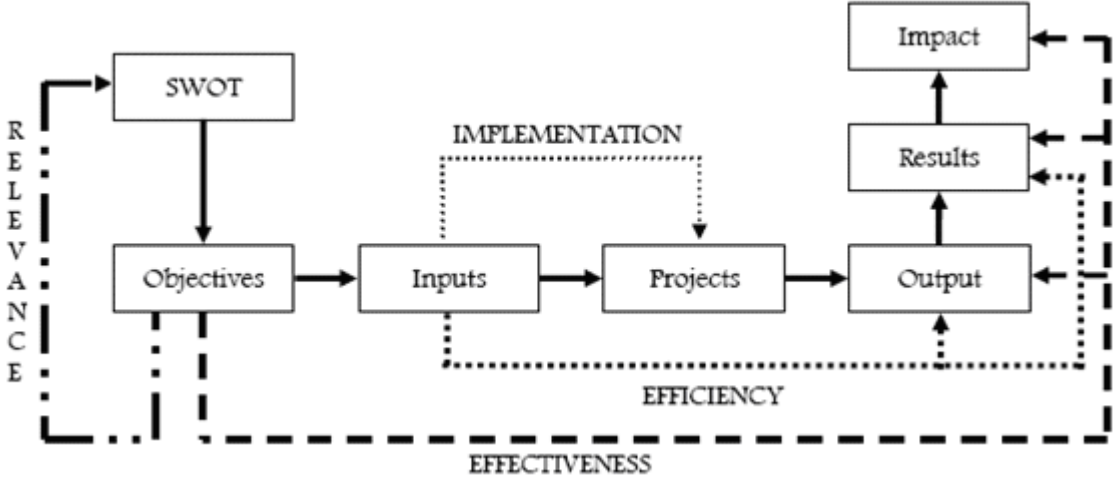
⁴ The increasing interest in evaluation of EU cohesion policy falls in with an international trend driven by demand for legitimization of government intervention and justification for it (*Bachtler and Wren 2006*).

⁵ See http://ec.europa.eu/regional_policy/sources/docoffic/working/sf2000_en.htm for details.

The basic aim of evaluation (or monitoring) in the EU is not to provide an ex post analysis of the flow of funds, but “to provide support for background examination of the execution of the development programmes” (Forman 2001:211). How can evaluation be performed? How can the existence of a policy be justified? How can it be shown that the money spent under regional policy has been well spent? According to Molle (2007:224), two things need to be measured: the policy has reached its objectives, i.e. been effective, and that no money has been wasted, i.e. that the policy has been efficient. Demonstrating effectiveness and efficiency bring us close to an evaluation.

The first step in evaluation is to see the logic in the intervention, to understand what it sets out to do and how (see EC 2001:5 and EC 2006:4). The key elements in this logic are inputs, projects (activities), outputs, results (short-term or initial impacts) and outcomes (longer-term impacts), see Figure 1. Often there is a SWOT analysis associated with the structure.

Fig. 1.: The key elements examined in evaluation of EU regional policy



Note: For the same diagram see EC 2001:9 or EC 2006:4.
 Source: Molle 2007:227.

Completing the evaluation not only sheds light on the research question’s accountability criterion (appropriate expenditure of taxpayers’ money), but improves the results of a certain phase of development policy, i.e. planning, programming and implementation, thereby improving performance (effectiveness and efficiency). Taking all this into consideration, the process can be referred to as learning (Molle 2006:2).

2. Types of evaluation

This chapter seeks to establish the truth of the generally accepted view that the supports arriving from the European Union generate significant growth in the areas supported. The *positive expectation* regarding the potential effects of the funds is *supported* by the *model simulations carried out by the European Commission*. *Empirical studies* into the real effects *report*, however, a relatively *weak surplus* effect for the funds in terms of growth and catching up⁶.

Ederveen et al (2006) and others (eg. *Mairat – Hall 2001*) examined the results of three different methodological approaches to analysing effects. The first of these was the conclusions drawn from *case studies*, according to which the effect of the EU's supports are modest or slightly positive. However this method, according to many, is not suitable for drawing aggregated national or regional level conclusions, and at most what we get from the studies are the number of 'motorway kilometres' constructed, or workplaces created. It is impossible to tell from the case studies how the employment rate would have developed if the support had not been awarded. They did however show that EU supports had a general effect on the practice of local authorities and often showed that rent-seeking behaviour can be observed. (See eg. *Ederveen et al 2003, Tavistock Institute – GHK – IRS 2003; CSES 2006*)

The other method examined by many authors is *model simulation*. This method can complement the mentioned deficiencies of case studies from many sides. Firstly, with the help of the model simulations it is easy to establish to what extent the cohesion supports contributed to improving the employment rate or GDP on a macro level, and secondly they can describe what would have happened had there been no EU supports. This latter function is important because slow growth and the simultaneous presence of structural support do not necessarily signify the ineffectiveness of the aid because it can happen that in a given area the situation would have been much worse without support. After studying the model simulations we can come to the conclusion that EU funds significantly contribute to growth and increasing employment rates in the supported countries. However this method also had weaknesses: the estimates of the simulations are not accurate, and they are much more influenced by the model's basic assumptions than by what really happened to the supporting projects. This criticism is especially pertinent because the models are often produced at the Commission's request, and so it entails the problem of subjectivity. The model simulations therefore *show only a possible effect*, which can be reduced by the real processes, the

⁶ A longer version of this subchapter can be read at <http://www.vki.hu/workingpapers/wp-188.pdf> written by Trón (2009).

crowding out effect, the inefficient allocation of funds and rent-seeking behaviour. (See eg. *Beutel 2002, Veld 2007, Bradley et al 2007, EcoMod 2007*)

The ex-post *econometric studies* are an excellent complement to the evaluations carried out by the previously prepared, ex-ante model simulations. *These studies generally give a pessimistic picture of the effects of development funds.* They attempt to estimate the real effects of the supports (in contrast to the model simulations' potential estimates), they do not assume the productivity of investments, the lack of the crowding out effect, nor the fulfilment of additionality. They have encountered a lot of criticism, too. The creation of the models suffered from a lack of data, or the data are not reliable, the data series available do not cover an appropriately long time period in all cases, and thus the long term effects of the structural funds become more difficult to estimate. (Eg. *Eckey – Türck 2006, Rodrigues-Pose and Fratesi 2004*)

Did the support programmes contribute to the reduction of differences, or would the reduction experienced have happened anyway? The above explained methodological examination helped us to answer this question, but, as we have seen, the answer was not at all unambiguous. The picture provided by case studies (using mainly informal methods and questionnaires), model simulations and econometric estimates is not complete. The results of the evaluations are different also because the different methods have different strengths and weaknesses, and so the questions they can answer are not the same either. The case studies give an accurate picture of the characteristics of a single project, the nature of the environment and the schedule of the project's realisation, but they are not always the best way to provide a statistical analysis of the funds' effects, or to draw conclusions on the macro level. The model simulations give the extent of possible effects in an ideal political situation; the econometric analyses attempt to identify trends in already existing effects, to understand the process of cause and effect and to estimate the real effect of the funds.

3. Results

Following the most important elements of the evaluation methods, it is worth returning to Fig.

1. Now we can repeat our questions.

(1) *Is the EU's cohesion policy appropriate?* We can answer this question if we consider whether the development of the policy and the measures carried out are relevant to the solution of the problem (if it exists?). At the level of cohesion policy the problem can be defined as follows: economic, social and territorial differences have existed for a long time,

and it is desirable to reduce these with the help of the structural funds and the Cohesion Funds. *In practice the greatest part of the supports (to simplify the situation) have been devoted to infrastructure and human resource development, and have become increasingly concentrated on the political sphere (Molle 2007). In the light of this, we can argue that nothing warrants arguing about the appropriateness of the regional policy.*

The other question we must ask is (2) whether the community's regional policy has been effective? We can define the interventions as effective, if they achieve the expected effects and reach their objectives. In practice this means answering two further questions: *Did the supports reach the appropriate regional target groups?* and *Has the structural funds money been spent on the kind of programmes and projects which helped to achieve the policy objectives?* We have seen that the basic objective was to reduce disparities, so the question could also be phrased as *have the structural funds' programmes contributed to the reduction of these disparities*, or would the observed reduction have happened anyway? The methodological study helped to answer this question, and as we have seen, the answer is not at all unambiguous. This is why I will examine an individual case to see whether any important lessons can be learned from the operating mechanism.

The picture that emerges from the case studies based mainly on questionnaires and informal methods is not complete. The evaluation results are also different because the different methods have different virtues and vices, and so the concrete questions they answer are not identical. The case studies provide an exact picture of a given project, the nature of the environment and the process of its execution, but they are not always able to give statistical information on the effects of the funds or their macro-level consequences. *The model simulations describe the possible extent of the effects in an optimal political situation, the econometric analyses, on the other hand, attempt to relate the already existing effects to a particular trend*, to discover the cause and effect, and to estimate the real effects of the supports. These results are the most pessimistic, and some of them claim that the funds are ineffective, or even have a negative effect. (e.g. *Boldrin – Canova 2001, Fagerberg and Verspagen 1996*).

But why does the policy not achieve its desired effect and why is it only partially carried out? According to the analyses, there are several factors involved:

- *The European Union supports have a crowding out effect in terms of national development funds (Ederveen et al. 2003, Veld 2007).* This is true even if the basic concept of additionality exists in the regional policy; because of the co-financing method a

region receives 0.17 euros less in national supports for every 1 euro it receives from the EU. (Ederveen et al. 2003:61).

- *The EU's supports crowd out or replace other convergence mechanisms*, e.g. the SF⁷ supports to backward regions reduce the growth in labour mobility (Boldrin – Canova 2001), and Union funds also have a squeezing out effect in areas of interest to private capital investment.
- *Several methodological approaches showed the existence of rent-seeking, and moral hazard* (Váradi 2006, Beugelsdijk and Eijffinger 2005), and the case studies also indicated this (see, for example, Stéclebout 2002)
- *The effects of EU interventions counterbalance national policies* (Midelfart-Knarvik – Overman 2002)
- It is important to mention – although no detailed evidence is available in the analysis – the new economic geography literature. As *economic integration develops* (or transportation costs decrease) *economic activities are more likely to be concentrated in central, and already richer, regions, and this is especially true for higher added value industrial sectors*. As a result the peripheral regions will specialise in manufacturing industries which require a lower level of training. (see the studies by Krugman 1991a,b, Martin 1999, Puga 2002, Midelfart-Knarvik – Overman 2002 or Rodriguez-Pose – Fratesi 2004).
- *As a result of this it is possible that most of the supports will flow into relatively rich regions* (Ederveen et al. 2003), *instead of being concentrated in the most needy areas and problems* (Dall'erba – Guillain – Le Gallo 2007).
- The question also arises, whether the money devoted to regional development is actually spent on the most *appropriate objectives*. In addition to infrastructure and small and medium-sized enterprises, money should be spent particularly on education and human capital, according to studies by Eckey – Türck (2006), Veld (2007) and EcoMod (2007). A study by the MNB⁷ (2006) emphasised the importance of the effects of non-agricultural related supports to rural areas, while Rodrigues-Pose and Fratesi (2004) show that this type of support produces strong initial effects which however, disappear with time and become negative and simply become income supports.
- Several authors (Armstrong 2002, ESPON 2005:5) point to the probability that there has *not yet been sufficient time for the effects to become visible, and that the amount of support is too small to produce spectacular results* (De la Fuente – Vives 1995).

⁷ Hungarian National Bank

Of course the success of regional development programmes is not only measured in terms of the reduction of regional disparities. According to the political science approach (*Allen 2005, Keating 1997*) *the agreements related to development programmes and the distribution of resources yield positive results, since individual states are forced to work closely together, and in this way help integration in the long term.*

3.1. Criteria for the efficient use of supports

We can ask whether there is any possibility of learning anything from the relationship between the growth experienced in Europe and the literature evaluating regional policy. This subsection will concentrate on *which factors act as preconditions when financial transfers are used effectively.*

The preconditions which could allow the cohesion policy to work more effectively have been outlined in four points on the basis of *the European Commission (EC 2004), Ederveen et al. (2006)* and *Váradi (2007)*. They are: an orderly, responsible, national and regional economic policy, an appropriate regional concentration of financial tools, a favourable coordination between strategy and investments, and the efficiency of the relevant institutions.

(1) *A sound, responsible, national and regional economic policy* requires⁸ that the expenditure of Cohesion Fund can be suspended if certain fiscal problems occur (it is beside the point here that since their introduction this suspension of funds has only ever been threatened rather than implemented)⁹, and also that in the case of well-performing regional programmes the performance reserve can be brought into use. A sound macroeconomic environment requires that *at least three criteria be satisfied. The macroeconomic policy and the regulatory framework that governs it must be clear and relatively stable, the country's institutional or administrative capacity must be operating appropriately, and there must be an efficient regional policy related to the member states.*

In the general and country-specific recommendations of the Broad Economic Policy Guidelines (BEPGs) several countries have also been given specific recommendations concerning their regional labour market. (*EC 2004:93*). Special attention is given to the appearance of key indicators where wages are able to reflect productivity and knowledge-skills differences, and in this way to help regions with high unemployment to increase their

⁸ See for example *Djankov et al (2006)*'s study of aid received by developing countries.

⁹ This is mainly due to the fact that the Community is largely built on intergovernmentalism which work on the basis of the voluntary following of norms, rather than on immediate punishment. See various chapters of *Csaba (2006)* for more details.

investments. Consequently, appropriate labour market regulation and appropriate regional labour market indicators are indispensable to maximise the efficiency of the EU's regional policy.

An appropriate economic and political atmosphere is not just able to bring about improved growth and employment prospects for the region or country concerned, but also acts as a precondition for the efficient use of external funds. Here it is worth emphasising *Burnside and Dollar's* (2000:847) finding, that *aid given to developing countries had a positive effect on the country's economic growth when given to countries which had the right fiscal, monetary and trade policies*. Where these policies operated badly the effect of the supports was almost negligible. This research was taken up by *Ederveen et al* (2006), who carried out a similar analysis on 13 EU countries. On the basis of their model too, the efficiency of the 'aid' or structural funds is conditional. Among the factors they examined, both the openness of the country and some variables which proxy the institutional context positively influenced the supports' effect on economic growth. The corruption index and data relating to the quality of national institutions were important in reflecting these factors. The presence of macroeconomic stability and open trade were emphasised by *Saravelos* (2007) in his study of the role of EU funds in Ireland and Greece.

Besides the right macroeconomic situation, a national economic policy directed at effective regional development is also important to guarantee real convergence between European regions. This can be reached by the member state by decentralising the direction and decision-making aspects of its sectoral policy towards economic and enterprise development and to employment and infrastructure development. The tools aimed at achieving regional development maybe redistributive, or may be proactive – aiming to prevent the formation of regional differences.¹⁰ Redistributive supports aim to distribute public money to end regional inequality, and are thus a redistribution of wealth. Proactive supports, on the other hand, place emphasis on the production of wealth, aiming to increase the economic potential of poorer regions. Although recently there has been a noticeable, although slight, movement away from wealth redistribution towards wealth creation in the national regional policies of some member states, they still remain primarily redistributive. The EU structural funds, however, are of a more proactive nature. *From the perspective of an efficient use of EU funds, it would be more useful to move the national regional policies*

¹⁰ For a comprehensive introduction to the economic tools directed at regional development in Hungary see *Illés* (2002).

further in a proactive direction, according to the studies by the MNB (2006) and the Commission (EC 2004).

So the EU regional policy cannot work without a stable macroeconomic framework in the member state (*Mairate – Hall 2001, Beutel 2002, EC 2004, Ederveen et al. 2006*), and this is something the European Union is trying to make the member states aware of. In those programmes judged to be the best in terms of efficiency, management and the use of finance, the Commission allocates further support up to 4 percent of the structural funds budget. According to some, however, (see *Tabellini 2005 and Easterly 2003, Burnside – Dollar 2000*), *although bad macro policies can be extremely damaging to development, good macro policies do not automatically guarantee excellent results.*

(2) In order to achieve significant impact with the limited EU resources at their disposal, *it is necessary to concentrate on the poorest regions and countries*, in a geographical-spatial sense. The EU regional development system is also affected by the so-called Kuznets–Williamson hypothesis, or the trade-off between growth and equality (see *Szentes et al. 2005*): at the beginning of the catch-up process for a time higher national growth is accompanied by increasing regional inequality¹¹. For this reason regional policy in the case of relatively poor countries – particularly where the GDP per capita of whole territory of the country is under 75% of the EU average – must also help the whole country’s growth, by, for example, building on existing growth potential of sectors and clusters (so-called growth poles). Since, if attempts are made to equalise different regions against market forces (by, for example, helping to distribute economic activity more equally), then the whole process of catching up will be hindered. At a more advanced stage of the catching up process, however, reducing regional inequality can be given higher priority.

The “*protective network*” role of the regional policy is also emphasised by *Csite (2008)* and *Martin (2000)*, which means that regions in crisis receive temporary support to help them move onto a new growth path. The protective nature of the network lies in the fact that all the actors in a region can be sure that in the event of a collapse following the radical transformation of markets, they will receive supports to incorporate new economic activities and thus climb out of the crisis. In crises the EU regional policy can be particularly effective; in other cases, however, its effects are questionable, particularly in the long term, when short term demand effects disappear and the regional transformations on the supply side can lead to interventions which are opposite to the original intention.

¹¹ *Szörfi (2007)* provides an excellent test of the hypothesis in a European context.

(3) In addition to spatial concentration of financial tools, according to some studies more attention should be devoted to concentration on *specific targets*.¹² As *Dall'erba et al (2007)* show, in the period between 1989 and 2004 the effect of supports was only felt in those regions receiving support in the earlier Objective 1 category; in the Objective 2 cases no effect could be demonstrated. In the framework of the earlier Objective 1 (now the convergence objectives) EU funds could be offered *to investment devoted developing public administration, physical infrastructure, human capital and the business environment*. Experience showed the supports were genuinely useful in those regions which were able to find *the right balance* between these four support criteria. To some extent the European Commission has already tried to put these principles into effect in new member states. For the 2004-2006 period Brussels requested a modification of the guidelines for the structure of national plans. "In general, investments in human capital and physical infrastructure were increased, while supports for agricultural projects and the business sector were reduced. However, in this last group more resources were provided for small and medium-size enterprises, and direct state support was decreased. Investment plans for local cultural and sporting initiatives were significantly reduced." (*MNB 2006:62*).

(4) The fourth factor influencing efficiency, *the role of administrative capacity*, will be dealt with in detail in the following subsection.

3.2. The role of distributing institutions

Representatives of the school of institutional economics argue that *institutions matter*. This subsection claims that *when the supports are used the quality of existing regional development institutions function in the same way as the general administrative system in the case of economic growth*. When examining growth and regional convergence most authors who also use EU supports as an explanatory factor, emphasise that additional capital transfers can only achieve their maximum effect in an appropriate operating framework.¹³ In relation to aid received by developing countries *Djankov et al. (2006)* note that it does not help economic growth but, by increasing government consumption, encourages rent seeking and often leads

¹² The need to establish and describe the concrete objectives also became evident in Hungary before the preparation of the 2nd National Development Plan. The evaluation of the first plan was critical of the fact that "one of the general problems hindering the achievement of the objectives was the lack of clear definition of goals. It is important that there be clear goals, that they be clearly communicated, and the executors and beneficiaries understand them, agree with them and accept that it is in their interests to achieve them." (*1103/2006. (X. 30.) Governmental decree p. 40*)

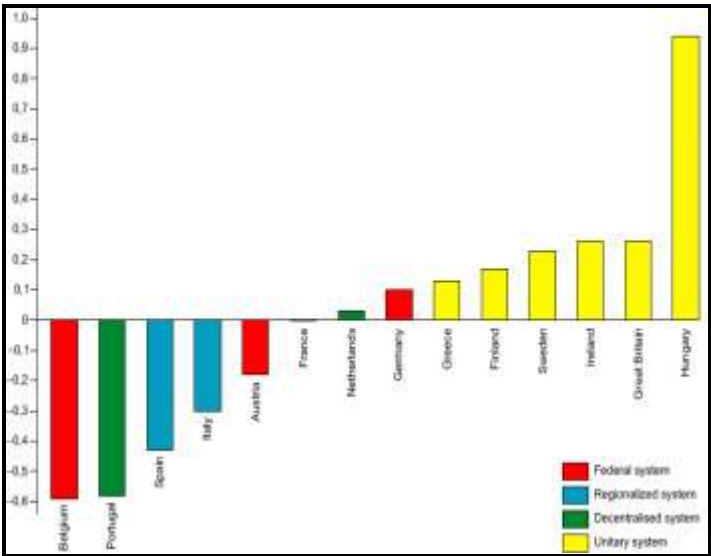
¹³ Just to mention a few studies which emphasise this: *Eckey – Türck (2006)*, *MNB (2006)*, *Veld (2007)*, *EcoMod (2007)* *Rodrigues-Pose and Fratesi (2004)*.

to corruption and to a reduction in the quality of democracy. In extreme cases disputes about aid can lead to civil war, based on the analogy with resource-rich countries. *Knack (2000)* shows that a higher level of support leads to an erosion in the quality of government. This problem is also dealt with by *Váradi Balázs (2006 and 2007)* in his examination of the effects of EU structural funds.

The grant application process for structural funds is relatively complex, and demands specialised skills from the given country’s bureaucracy. Although it can be said that it would be helpful to simplify the system, there is a trade-off between simplicity and accountability. In order to evaluate the institutions related to regional development in the EU-15, we must find appropriate criteria for judgement. The best choice would be those guiding principles established by the EU to guarantee the most effective realisation of the European regional policy, in other words 1. decentralisation, 2. additionality, 3. programming, 4. partnership, 5. efficiency (absorption capacity), 6.transparency (corruption). To complement this it would be a good idea to examine the effects of Europeanization, which also indicate the adaptation to changes.

An examination of *decentralisation* shows that the more space a country allows for its provinces (see federalised states), or regions (regionalised, decentralised states), the less it has to struggle with problems caused by regional differences. This is illustrated by Fig. 2, which shows changes in regional variation as a function of types of state. The so-called unitary, or strong central government member states, are much less able to deal successfully with differences within countries (*Horváth 2004*).

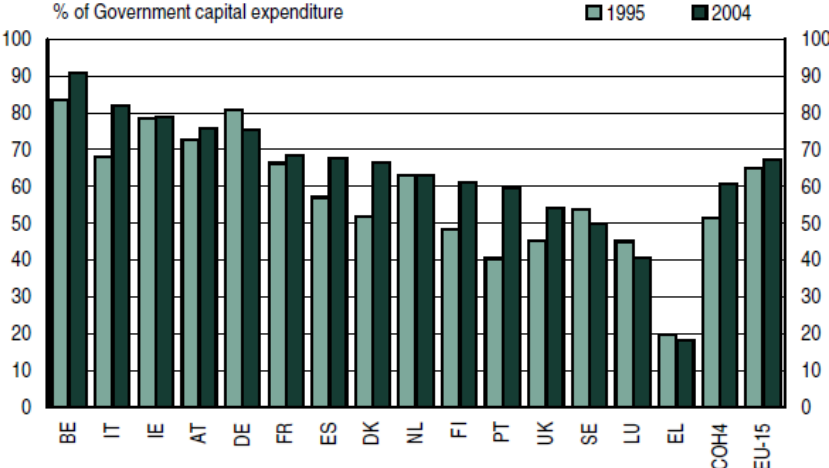
Fig. 2.: Changes in regional differences between most and least developed regions



Source: *Horváth (2004)*

An important precondition of the efficient use of supports is that the transfers help the growth of private investment rather than crowding it out. If we consider capital investment made by regional and local authorities as a proportion of total government investment (Fig. 3.), then we can also see that Greece has the most centralised system, while in Belgium 80-90% of investments are coordinated at a regional or local level.

Fig. 3.: Capital expenditure by regional and local authorities (1995-2004)



Source: EC (2007:147)

The basic principle of *additionality*, as described in the case of programmes supported in the Objective 1. framework, is that member states agree with Brussels beforehand on the level of nationally provided common finance, which in general should not be lower than that achieved in the period preceding the supports. The external examinations carried out after the 1994-99 and the 2000-2006 periods showed that this was not achieved everywhere (EC 2004:100). The performance of The Netherlands and Sweden was, however, outstanding (see Fig 4.). *Midelfart-Knarvik and Overman (2002)* however, show that there is clear evidence from the supports directed to the processing industry that a higher level of EU support is accompanied by lower state support, while a lower level attracts a higher level of state support.

Fig 4.: Compliance with the principle of additionality for Objective 1

	Ex- post 1994/1999	Ex-ante 2000/2006	Mid-term 2000/2002
	(1)	(2)	(3)
Belgium	118	98	117
Germany	80	93	88
Greece	124	146	139
Spain	98	101	104
France	120	105	99
Ireland	166	200	189
Italy	80	104	98
Netherlands	124	231	253
Austria	136	103	103
Portugal	118	116	119
Finland	127	108	110
Sweden	114	249	264
UK	n/a	n/a	n/a

Notes: Indices for annual averages of national public eligible expenditures.

(1) Ex-post 1994/1999 compared with ex-ante 1994/99.

(2) Ex-ante 2000/2006 compared with ex-post 1994/99.

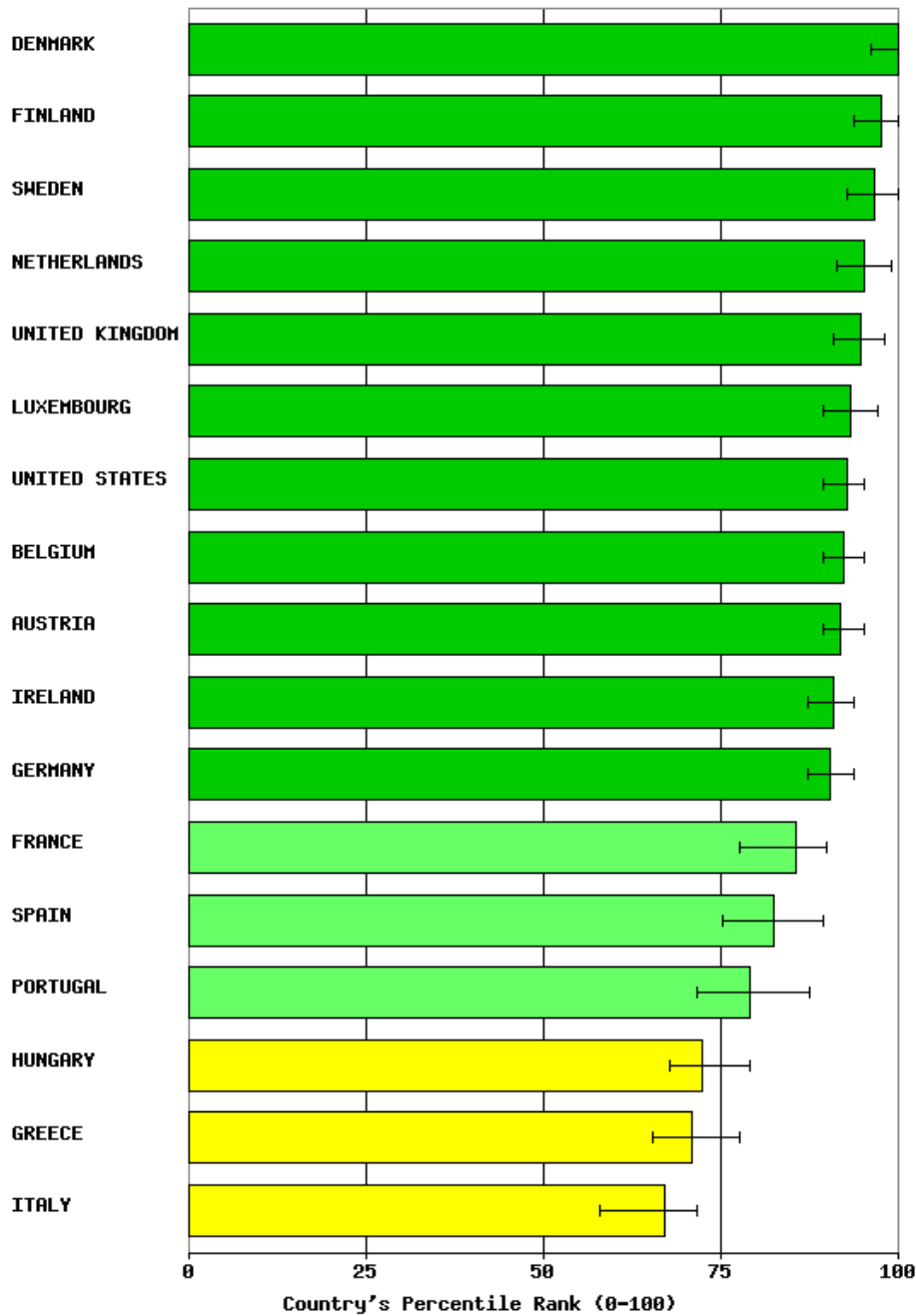
(3) Ex-post 2000/2002 compared to ex-post 1994/99.

Source: EC (2004:100)

In the analysis of the following basic principles the informal institutional system of the member states is compared with various indicators of regional policy. These include the effectiveness of *programming* and the absorption capacity which can be measured against the quality of state regulation according to the World Bank's Government Effectiveness Index¹⁴. These indicators (see Fig. 5.) show very well the advantage enjoyed by Scandinavian nations over Mediterranean nations; the highest values are found in Denmark, Finland, Sweden and Holland, while the list is closed by Italy and Greece.

¹⁴ This index gives a numerical value for bureaucratic expertise and the quality of public services, based on data collected from 30 separate databases by the Worldwide Governance Indicators project.

Fig. 5.: Government Efficiency (2008)



NB: The indicators of government efficiency shown here bring together opinions relating to the quality of government, prepared by combining a large number of studies involving experts, citizens and the business community in industrial and developed countries. The data come from numerous research institutes, think tanks, NGOs and international organisations. The aggregated indicators do not reflect the official opinions of the World Bank, their employees or the countries represented. The relative positions of the countries in this scale depend on the given margin of error, which should be taken into consideration both between countries and over time.

Source: Kaufmann et al. (2009) (produced from databases found on the World Bank homepage¹⁵)

¹⁵ <http://info.worldbank.org/governance/wgi/index.asp>

Other studies comes to the same conclusions. *Van de Walle's (2005)* study is not limited to any one particular index, but extends to the results of studies carried out by the World Bank, the European Central Bank, the World Economic Forum and the Institute for Management Development, and comes to the same conclusions. It is clear from Table 1. that there is a well-performing Scandinavian group and a poorly performing Mediterranean group.

Table 1: Analysis of the differing findings from various indexes on the performance of public administration, comparison of rankings in EU-15 countries

	ECB - Public Sector Performance (administration) 2000 score		ECB - Public Sector Efficiency (administration) 2000 score		WB - Government Effectiveness 2004 score		WEF - Public Institutions Index 2003-2004 score		IMD - Government Efficiency 2004 score	
	AT	1,21	(2)	1,22	(1)	1,76	(7)	5,83	(8)	69,06
BE	0,73	(11)	0,64	(13)	1,71	(8)	5,41	(12)	43,74	(13)
DE	1,02	(8)	1,01	(5)	1,38	(11)	6,10	(4)	50,22	(11)
DK	1,16	(3)	0,86	(9)	2,15	(1)	6,56	(1)	77,40	(2)
ES	0,77	(10)	0,97	(6)	1,29	(12)	5,28	(13)	61,03	(7)
FI	1,26	(1)	1,22	(1)	2,06	(3)	6,52	(2)	77,62	(1)
FR	0,72	(12)	0,61	(14)	1,42	(10)	5,50	(10)	44,80	(12)
GR	0,60	(13)	0,79	(11)	0,74	(14)	4,71	(14)	37,99	(14)
IE	1,06	(6)	1,10	(3)	1,48	(9)	5,46	(11)	69,07	(4)
IT	0,52	(15)	0,54	(15)	0,58	(15)	4,56	(15)	25,41	(15)
LU	1,05	(7)	1,10	(3)	2,08	(2)	5,92	(7)	71,19	(3)
NL	1,16	(3)	0,9	(8)	2,00	(4)	6,02	(5)	59,09	(8)
PT	0,54	(14)	0,74	(12)	0,92	(13)	5,52	(9)	51,84	(10)
SE	1,16	(3)	0,81	(10)	1,92	(5)	6,28	(3)	64,12	(6)
UK	1,00	(9)	0,94	(7)	1,85	(6)	6,01	(6)	53,06	(9)

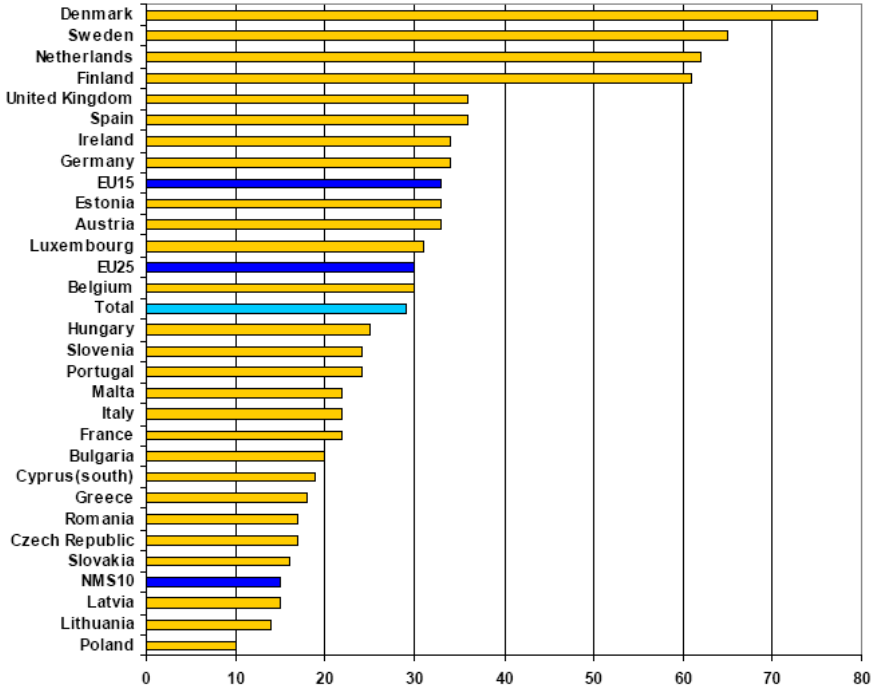
Source: *Van de Walle (2005:24)*

Limiting their examination to the institutions of the social systems *Bakács and Borkó (2006)* establish a ranking for the competitiveness of the Scandinavian and Mediterranean models, compared to the Continental and Anglo-Saxon models, and here the Scandinavian model is first and the Mediterranean model last (for the bureaucracy and the political clientism of the southern states see *Sotiropoulos 2004*).

According to the concept of *partnership* expressed in the EU's decrees, one of the keys to the efficient and transparent use of supports is that during the planning stage the interests of local, regional, sectoral and social groups should be taken into account to the maximum extent, because on this basis the various actors will be able to claim and use the sources available. In the context of the principle of partnership in the process of social agreement an important role is also played by communication and by the publication of the details of the structural funds.

The question arises, however, whether the relationships are built on the basis on the Putnam style mutual offers of help and mutually shared information, or whether the groupings are formed in the Olson style, based on bonds formed to represent group interests, rent-seeking behaviour and lobby interests. From this perspective we can also examine the general levels of social trust and the corruption indexes in the old EU member states. In the *LSE PS's (2007)* study on social capital a ranking was established with Scandinavian-Mediterranean poles at each end of the scale (Fig. 6.), to show the results obtained from the Special Eurobarometer questionnaire. The results are similar as mentioned above.

Fig. 6.: Generalised (social) trust in international comparison

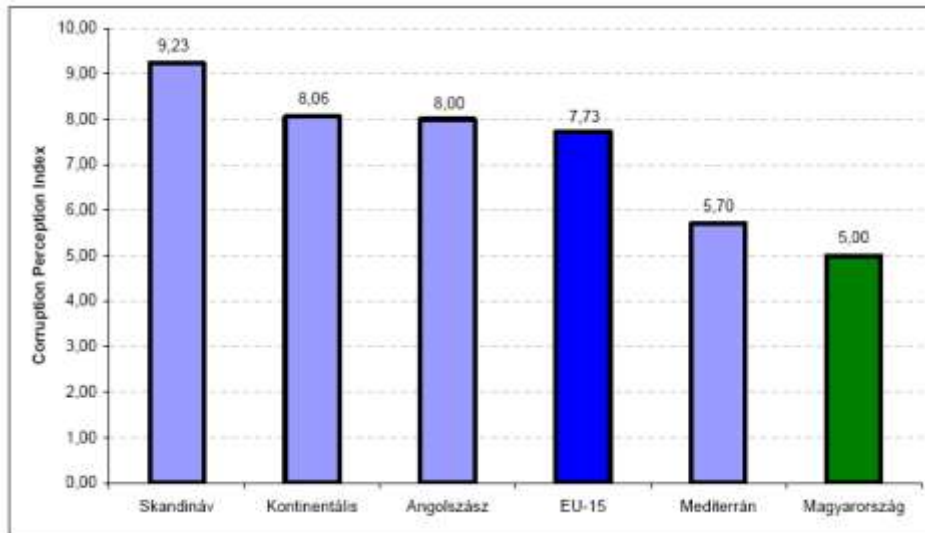


Source: *LSE PS (2007:14)*

The appearance of corruption can also be compared using the World Bank’s Worldwide Governance Indicator which examines to what extent the public sector uses its power to achieve personal ends, and here the higher values represent the cleaner, less corrupt countries (Fig. 7.). Finally, we demonstrate the negative relationship between the inequality within countries and the level of trust between individuals, (Fig. 8.), where, once again, the Scandinavian communities stand out.

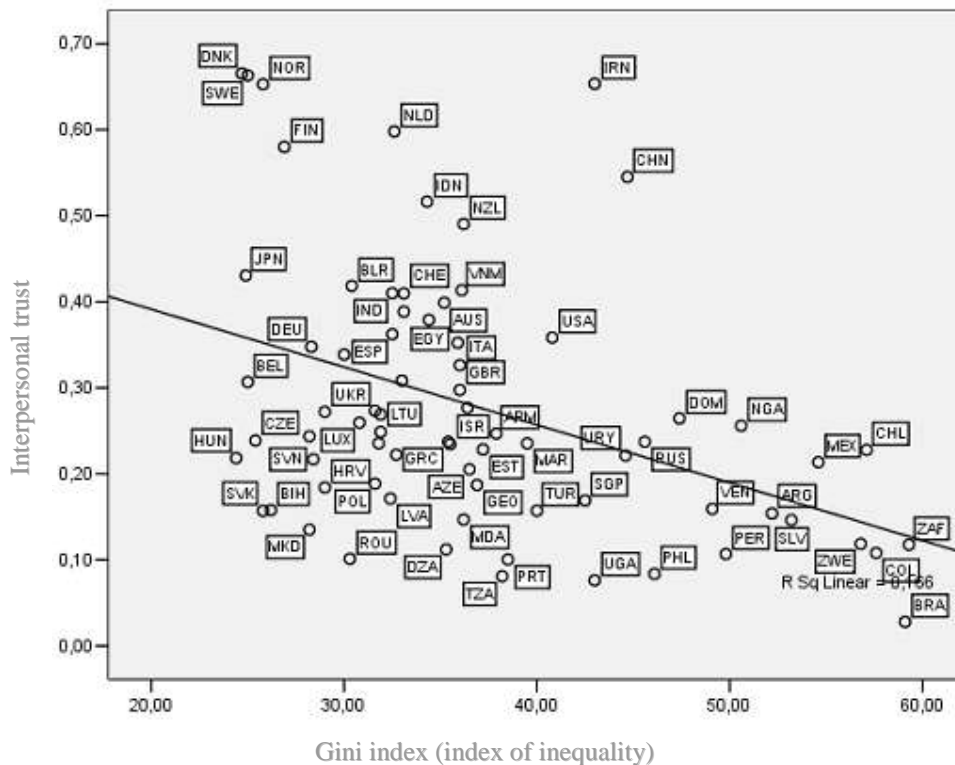
As we can see, Nordic countries (together with The Netherlands) consistently show the best results. They are socially richer, seem more equal, enjoy lower levels of corruption, good governance and a high quality of democracy.

Fig. 7.: Levels of corruption in different models (2005)



Note: 10 – no corruption, 0 – high corruption; so the lower the index value the higher the level of corruption.
 Source: Bakács – Borkó (2006:17) on the basis of the Transparency International CPI (Corruption Perception Indices).

Fig. 8.: Trust and inequality



The question arises whether the high level of social capital generally produces these positive factors and thus the more efficient use of supports, or whether the Scandinavians only appear as exceptions, which means that a high level of social capital is so closely linked to Nordic culture that it cannot be copied and repeated elsewhere. *The question then, is whether there exists a Nordic model which can be copied as good practice, or whether this phenomenon is linked to Nordic culture, which is historically determined and thus is unlikely to be easily transferred to others.*

It is difficult to deny the more pessimistic version. According to *Putnam et al (2003)* social capital changes relatively slowly and it is difficult to change it with concrete political measures, although attempts have been made (see *TÁRKI 2005*). On the other hand, by examining culture we can arrive at an understanding of the present state of institutions, and of the practical activities carried out and it is evident that here too changes are occurring; it is enough to refer here to the processes and changes of Europeanization in the new member states. From this perspective it seems that at least something can be learned from the Nordic experience, for example, how the links between the civil sphere and the state are institutionalised and how they take shape in concrete development tasks to maximise the effects of good government; and how society takes part in the day to day business of formulating special policy and government.

In any case it is necessary to conduct a deeper analysis into how is it possible that those who are the least needy can use the development funds most efficiently, while those who are in real need do not fulfil the preconditions for efficiency.

References

- 1103/2006. (X. 30.) Government decree on adopting the 2nd National Development Plan in Hungary. (Korm. határozat az Új Magyarország Fejlesztési Terv elfogadásáról.) In Hungarian, http://www.nfu.hu/download/310/1103_2006_korm_hat.pdf. Downloaded: 2007.01.12.
- Allen, David (2005): Cohesion and the Structural Funds. In: Wallace, Helen – Wallace, Hanry (eds.): Policy Making in the European Union. Oxford University Press, Oxford. 213-241.
- Armstrong, Harvey W. (2002): European Union Regional Policy: Reconciling the Convergence and Evaluation Evidence. In: Cuadrado-Roura, J. R. – Parellada, M. (eds.): Regional Convergence in the European Union: Facts, Prospects and Policies. Springer-Verlag, Berlin – Heidelberg – New York. 231-272.
- Bachtler, John – Michie, Rona (1995): A new era in EU regional policy evaluation? The appraisal of structural funds. *Regional Studies*, 29(8) 745-751
- Bachtler, John – Wren, Colin (2006): Evaluation of European Union Cohesion Policy: Research Questions and Policy Challenges. *Regional Studies*, 40(2) 143-153.
- Bakács András – Borkó Tamás (2006): Az állami szerepvállalás európai modelljei. ICEG, Munkafüzet 13.
- Batterbury, Sarah C. E. (2006): Principles and purposes of European Union cohesion policy evaluation. *Regional Studies*, 40(2) 179-188.
- Beutel, Jörg (2002): The economic impact of Objective 1 interventions for the period 2000-2006. Konstanz. http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/objective1/final_report.pdf. Downloaded: 16.04.2008
- Beugelsdijk, Maaike – Eijffinger, Sylvester C. W. (2005): The Effectiveness of Structural Policy in the European Union: An Empirical Analysis for the EU-15 in 1995-2001. *Journal of Common Market Studies*, 43(1) 37-51.
- Boldrin, Michele – Canova, Fabio (2001): Inequality and convergence in Europe's regions: Reconsidering European regional policies. *Economic Policy*, 16(32) 207-245.
- Bradley, John – Mitze, Timo – Untiedt, Gerhard (2007): Analysis of the Impact of Cohesion Policy. A note explaining the HERMIN-based simulations. http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/hermin07.pdf. Downloaded: 24.10.2007
- Burnside, Craig – Dollar, David (2000). Aid, Policies and Growth. *American Economic Review*. 90(4): 847-868.
- Csaba László (2006): A fölemelkedő Európa. Akadémia Kiadó, Budapest.
- CSES (2006): Study on Measuring Employment Effects. Centre for Strategy and Evaluation Services, http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/empleffect06.pdf. Downloaded: 24.02.2008
- Csité András (2008): Az európai régiók konvergenciája. A tanulmány az NFÜ részére készült elemzés. <http://www.nfu.hu/download/8465/Eur%C3%B3pa%20r%C3%A9gi%C3%B3k%20konvergencia.pdf>. 2008.11.20.
- Dall'Erba, Sandy – Guillain, Rachel – Le Gallo, Julie (2007): Impact of Structural Funds on Regional Growth: How to Reconsider a 7 Year-Old Black-Box? European Study Group, Discussion Paper No. EUC 07-02. http://europe.arizona.edu/projects/EUC_02-07.pdf. Letöltés időpontja: 2007. 09. 26.
- De la Fuente, Angel – Vives, Xavier (1995): Infrastructure and education as instruments of regional policy; evidence from Spain. *Economic Policy*, 10(20) 11-40.
- Djankov, Simeon – Montalvo, Jose G. – Reynal-Querol, Marta (2006): Does Foreign Aid Help? *Cato Journal*, Vol. 26, No. 1. 1-28.
- Easterly, William (2003). National Policies and Economic Growth: A Reappraisal. Centre for Global Development, Working Paper no. 27.
- EC (2001): Indicators for Monitoring and Evaluation: An indicative methodology. The New Programming period 2000-2006: methodological working papers. WORKING PAPER 3. http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/indic_en.pdf
- EC (2004): EU Economy 2004 Review, Chapter 2: Catching-up, Growth and Convergence of the New Member States. DG Economy and Finance, http://ec.europa.eu/economy_finance/publications/european_economy/2004/ee604fullreport_en.pdf
- EC (2006): Indicative guidelines on evaluation methods: ex ante evaluation. The New Programming Period 2007-2013: Working Document No.1. http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd1_exante_en.pdf. Letöltés időpontja: 2008.03.10.
- EC (2007): Growing Regions, growing Europe. Fourth report on economic and social cohesion. Az Európai Unió Bizottsága, Brüsszel. http://europa.eu.int/comm/regional_policy/sources/docoffic/official/reports/cohesion4_en.htm. Accessed: 2007. 05. 31.

- Eckey, Hans-Friedrich – Türck, Matthias (2006): Convergence of EU-regions. A Literature Report. Discussion Papers in Economics No.80/06, University of Kassel, Institute of Economics, 1-25. <http://www.uni-kassel.de/fb7/ivwl/diskussionsbeitraege/workingpaper/papier8006.pdf>. Downloaded: 10.01.2007
- EcoMod (2007): Study on the Economic Impacts of Convergence Interventions (2007-2013). http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/cf_final_report_2007.pdf. Downloaded: 12.04.2008
- Ederveen, Sjef – Gorter, Joeri – Ruud de Mooij – Nahuis, Richard (2003): Funds and Games: The Economics of European Cohesion Policy. ENEPRI, Occasional Paper No. 3, October 2003. <http://www.cpb.nl/eng/pub/discussie/15/disc15.pdf>. Downloaded: 07.06.2007
- Ederveen, Sjef – Henri L.F. de Groot – Nahuis, Richard (2006): Fertile Soil for Structural Funds? A Panel Data Analysis of the Conditional Effectiveness of European Cohesion Policy. *Kyklos*, 59(1):17-42.
- ESPN (2005): The Territorial Effects of the Structural Funds. Project report. http://www.espon.eu/mmp/online/website/content/projects/243/239/file_374/fr-2.1.1_revised.pdf. Downloaded: 10.07.2006
- Fagerberg, Jan – Verspagen Bart (1996): Heading for Divergence? Regional Growth in Europe Reconsidered. *Journal of Common Market Studies*, 34(3) 431-448.
- Forman Balázs (2001): Az Európai Unió strukturális és előcsatlakozási alapjai. Hungarian Delegation to the European Commission, Interpress, Budapest.
- Horváth Gyula (2004): Európai regionális politika. Dialóg Campus, Budapest-Pécs.
- Illés Iván (2002): A területfejlesztés pénzügyi eszközei az Európai Unióban és Magyarországon. *Közgazdasági Szemle*, 49. évf. július-augusztus, 677-698.
- Keating, Michael (1997): The Political Economy of Regionalism. In: Keating, M. Loughlin, J. (eds.) (1997): *The Political Economy of Regionalism*. FrankCass, London. pp. 17-40.
- Knack, Stephen (2000): Aid dependence and the quality of governance. A cross-country empirical Analysis. Policy Research Working Paper No. 2396. World Bank.
- Krugman, Paul R. (1991a): *Geography and Trade*. MIT Press, Cambridge, Massachusetts. (Magyarul megjelent: 2003. *Földrajz és Kereskedelem*. Nemzeti Tankönyvkiadó, Budapest.)
- Krugman, Paul R. (1991b): Increasing returns and economic geography. *Journal of Political Economy* 99. évf. 3. szám, 484-499. o.
- LSE PS (2007): Social Cohesion, Trust and Participation: Social Capital, Social Policy and Social Cohesion in the European Union and Candidate Countries. Monitoring Report, European Observatory on the Social Situation - Social Capital Network, LONDOL School of Economics and Political Science. http://ec.europa.eu/employment_social/spsi/docs/social_situation/2007_mon_rep_soc_cap.pdf. Accessed: 2008.04.20.
- Mairate, Andrea – Hall Ronald (2001): Structural Policies. In: Ronald Hall, Alasdair Smith, Loukas Tsoukalis (eds.): *Competitiveness and cohesion in EU Policies*. Oxford University Press, New York.
- Martin, Philippe (1999): Are European regional policies delivering? *EIB Papers*, 4. évf. 2. szám, 10-23.
- Martin, Philippe (2000): The role of public policy in the process of regional convergence. *EIB Papers*, 5(2): 69-79.
- Midelfart-Knarvik, Karen Helene – Overman, Henry G. (2002): Delocation and European Integration: is Structural Spending Justified? *Economic Policy*, Vol. 35. okt. 323-359.
- MNB (2006): Elemzés a konvergencia-folyamatokról. www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resourcename=konvjel_20061218_hu. Letöltés időpontja: 2007.03. 14.
- Molle, Willem (2006): Evaluating the EU cohesion policy. Konferencia anyag az RSA szervezésében, <http://www.regional-studies-assoc.ac.uk/events/leuven06/molle.pdf>. Letöltés időpontja: 2007. 07. 08.
- Molle, Willem (2007): *European Cohesion Policy*. Routledge, London.
- Puga, Diego (2002): European regional policies in the light of recent location theories. *Journal of Economic Geography*, 2. évf. 4. szám, 373-406.
- Putnam, Robert D. – Leonardi, Robert – Nanetti, Raffaella Y. (1993): *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton University Press, Princeton.
- Rodriges-Pose, Andrés – Fratesi, Ugo (2004): Between development and social policies: The impact of European structural funds in objective 1 regions. *Regional Studies*, 38(1) 97-113.
- Sotiropoulos, Dimitri A. (2004): Democratization, Administrative Reform and the State in Greece, Italy, Portugal and Spain: Is There a 'model' of South European Bureaucracy? Hellenic Observatory Discussion Paper No17, Hellenic Observatory, LSE. <http://www.lse.ac.uk/collections/hellenicObservatory/pdf/DiscussionPapers/Sotiropoulos17.pdf>. Accessed: 2008.04.09.
- Stéclebout, Eloïse (2002): Europeanization of Regional Policies and Conflicts over Power and Information: The Case of the French Region of Nord-Pas de Calais. Paper presented at the 3rd workshop of the European Young Researchers Network on EU Spatial Policies: "Rethinking EU spatial policy as a hologram: actions, institutions, discourses" Istituto Universitario di Architettura di Venezia, Dipartimento di Pianificazione, Venice, Italy, October 21st - 23rd, 2002. esteclebout.free.fr/papers/paper_ymrn.pdf
- Szentes Tamás és munkaközössége (2005): *Fejlődés, versenyképesség, globalizáció I.* Akadémia Kiadó, Budapest.

- Szörfi Béla (2007): Development and Regional Disparities – Testing the Williamson Curve Hypothesis in the European Union. Focus on European Economic Integration, az Osztrák Nemzeti Bank kiadványa, 2007. 2. szám, http://www.oenb.at/de/img/feei_2007_2_szoerfi_tcm14-79074.pdf. Letöltés időpontja: 2009. 01. 09. 100-121.
- Tabellini, Guido (2005): The Role of the State in Economic Development. *Kyklos*, Vol. 58. – No. 2, 283-303.
- TÁRKI (2005): A társadalmi tőke növelésének lehetőségei fejlesztéspolitikai eszközökkel. <http://www.tarki.hu/adatbank-h/kutjel/pdf/a768.pdf>. Accessed: 2006. 02. 23.
- Tavistock Institute – GHK – IRS (2003): The Evaluation of Socio-Economic Development: The Guide. Tavistock Institute, London. http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/downloads/the_guide.zip, Letöltés időpontja: 2007. 10. 24.
- Trón Zsuzsanna (2009): Examining the Impact of European Regional Policy. VKI Working Papers, No 188. 2009 June, 1-19. <http://www.vki.hu/workingpapers/wp-188.pdf>
- Van de Walle, Steven (2005): Measuring Bureaucratic Quality in Governance Indicators. Study Group on Productivity and Quality in the Public Sector, Bern. <http://soc.kuleuven.be/io/egpa/qual/bern/Vandewalle.pdf>. Accessed: 2008. 04. 20.
- Váradi Balázs (2006): Miért folyik a csata? Avagy a 8000 milliárd átka. *Élet és Irodalom*, 2006. november 03. 44. szám.
- Váradi Balázs (2007): A nyolcezermilliárd átka II. *Élet és Irodalom*, LI. évfolyam 2. szám, 2007. január 12.
- Veld, Jan in't (2007): The Potential Impact of the Fiscal Transfers under the EU Cohesion Policy Programme. *European Economy, Economic Papers No. 283*. 1-29. EC DG Ecf. http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/impact_transfer.pdf. Letöltés időpontja: 2007. 10. 24.