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Cohesion Policy and the Evolution of Regional Policy in Central and Eastern Europe

MARTIN FERRY & IRENE MCMASTER

Abstract

The paper considers the extent to which domestic regional policy in the Central East European EU member states has been ‘subsumed’ into cohesion policy approaches. It acknowledges that directions of domestic regional policy change vary with processes of EU policy transfer, adaptation, emulation or resistance. This variation occurs across time and across member states. Crucially, the paper argues that interaction between cohesion policy and national regional policy systems also varies according to different regional policy components. Drawing on research from across the member states, the analysis breaks policy down into a number of key dimensions (objectives, instruments, spatial targeting and governance) and assesses the interaction between EU and domestic approaches and agendas.

THIS PAPER CONTRIBUTES TO DEBATES SURROUNDING THE Europeanisation of regional policy in the Central and East European (CEE) EU member states of Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, Slovenia and Romania. The paper considers the interaction between the domestic regional policies of these member states and EU regional policy, known as cohesion policy. The implementation of cohesion policy is seen by some academics as contributing to processes of Europeanisation, understood as ‘processes of construction, diffusion and institutionalisation of formal and informal rules, procedures, policy paradigms and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic discourse, identities, political structures and public policies’ (Radaelli 2000, p. 4). Under this interpretation, cohesion policy is credited with influencing the focus and content of domestic regional development activities, enhancing the coordination of national and sub-national levels tasked with regional development and strengthening partnerships between public, private and voluntary actors (Conzelmann 1998).

However, this perception of cohesion policy as a vehicle of Europeanisation is contested. National governments can act as gatekeepers, positioning themselves according to a range of domestic and external agendas and potentially limiting the impact of the EU (Benz & Eberlein 1999). Rather than driving the evolution of domestic approaches to regional

development, the shape and impact of cohesion policy programmes can themselves be dictated by the domestic setting. The effectiveness of the programmes relies on the existence of coherent and supportive domestic policy frameworks and a suitable system for delivering regional development interventions. Without this, there is a danger of shallow or superficial Europeanisation ([Ederveen *et al.* 2002](#)).

Over the past decade, a complex relationship between EU and domestic factors has emerged from studies of Europeanisation. A variety of Europeanisation processes have been described, including downloading and uploading, whether direct or indirect, coercive or voluntary. A number of potential outcomes have been identified, including: absorption, accommodation and transformation. A range of variables have been developed to explain the extent and direction of Europeanisation processes in different cases. This includes the strength of EU incentives and the force of formal requirements, such as the use of the Nomenclature of Territorial Units for Statistics (NUTS) hierarchical system for dividing up the economic territory of the EU. It also includes domestic policy contexts, external factors (such as globalisation and economic crises), and the passage of time. As a result, there is broad consensus that the impact of the EU on domestic policies and politics varies both across states and within states across different dimensions, such as policy sectors, actors and institutions, according to variations in the pressures coming from the EU-level and the response of domestic actors and institutions, itself conditioned according to the extent to which these pressures fit with domestic preferences and practice.

These debates have specific meaning in the context of regional policy in CEE. In the face of strategically weak and under-resourced regional policy systems it could be expected that cohesion policy would drive domestic regional development agendas in these countries. On the other hand, it can be argued that specific factors in the CEE context have constrained or diffused Europeanisation processes. These relate to EU vagueness and ambiguity concerning the content and implementation of regional policy in CEE, domestic legacies, including underdeveloped regional policy frameworks and the fact that accession occurred at a time of broader systemic flux associated with ongoing post-communist transitions ([Grabbe 2001](#)). Following an initial programming period of 2004–2006 (except for Bulgaria and Romania), CEE member states are now nearing the end of a seven year cohesion policy programming period. Features of cohesion policy have now had some time to be embedded, adapted or even rejected by domestic regional policy systems.

Given this, there is a need for nuanced analysis of how domestic regional policy in CEE has evolved under the influence of cohesion policy. Up to now, studies have tended to focus on changes in structures and institutions in specific domestic settings over the accession period, often related to policy governance issues such as partnership and decentralisation ([McMaster & Ferry 2003](#)). However, for analytical clarity it is important to specify what is being transferred or uploaded and to what degree. Drawing on policy transfer and policy termination literatures, this paper develops an analytical framework that distinguishes between basic components of regional policy (objectives, instruments, spatial targeting and governance) and assesses the extent of Europeanisation under each (in terms of absorption, accommodation, transformation). It draws on prominent examples from across CEE. Such an approach allows a fine-grained, comparative analysis of areas of policy change, adaptation and resistance. It concerns the extent to which EU approaches are apparent in the domestic regional policy systems of CEE member states; what is being funded, the instruments used, the strategic objectives set and the governance of the policy. It is argued

that there are differences in the extent of Europeanisation, which has occurred primarily in specific, lower level components of the CEE regional policy systems rather than across the policy as a whole.

Following the introduction, the paper reviews the main literature, with particular reference to debates surrounding Europeanisation, and develops an analytical framework from the policy transfer and policy termination literatures. The third section applies this framework to regional policy systems in the CEE member states, focussing on the headings of policy objectives, policy instruments, spatial targeting of policy and the governance of policy. Under each, the paper considers to what extent domestic policy approaches replicate, merge with, or remain distinct from EU cohesion policy. In doing so, the paper highlights how different aspects of policy have or have not been affected by cohesion policy and assesses the strength of the domestic dimension in CEE regional policies. This contributes to theoretical debates on Europeanisation processes but also provides policy insights on the relationship between EU and domestic regional policy funding as the majority of the CEE member states are preparing for their third round of cohesion policy programmes (for the period 2014–2020).

Cohesion policy and Europeanisation in CEE

As noted above, the impact of the EU on domestic policies and politics varies both across states and within states across different dimensions, depending on the particular mix of pressures from the EU and the responses of domestic actors (Bache 2008). On the one hand, the EU has a range of mechanisms through which it can influence domestic policies and politics. The strategic use of EU resources can influence a particular policy decision, increasing capacity for action or access to the policy process. Formal requirements, including accession criteria and aid conditionality, can influence domestic policies through the different requirements that are imposed on those seeking EU membership or wishing to access EU funds. Another mechanism is learning, where domestic actors change their policy orientations because of their participation in EU programmes (Verschraegen *et al.* 2011). Cohesion policy can promote domestic policy change by providing an additional source of funding for regional development, accompanied by a mandatory framework that regulates policy content, management and implementation. Setting a mechanism for the implementation of EU-funded regional development programmes has, it has been argued, played a significant part in changing perceptions of the aims and content of domestic regional development interventions. Concepts such as policy diffusion, transfer or learning have been introduced to explore how EU preferences can be incorporated into domestic regional policy arenas through cohesion policy programmes in a voluntary or indirect way (Bachtler & Mendez 2007). It has also been argued that the process of implementing Structural Fund (SF) programmes can introduce a new range of actors to the regional development field, particularly at sub-national levels, and within private and voluntary spheres (Roberts & Hart 1996).

Other research, however, questions the scope of EU influence on domestic policy (Bache 1998; Bache & Andreou 2011). National governments can act as ‘gatekeepers’, thus limiting the impact of the EU (Benz & Eberlein 1999). According to Hughes *et al.* (2004), domestic policy makers have considerable discretion in the way EU funds are administered. The downloading of EU policies and institutions by the member states are likely to be shaped by

cost–benefit calculations of strategic actors (Börzel 2010). Domestic policy traditions and institutions may hinder the wholesale adoption of EU policy approaches. Equally, domestic processes of institutional reform and the introduction of new policy initiatives can provide incentives for participation in EU programmes, improving their operation. Rather than driving the evolution of domestic approaches to regional development, the shape and impact of EU cohesion policy programmes themselves can be determined by the domestic setting (Ederveen *et al.* 2002). This view corresponds with path-dependency theory in suggesting that national institutional frameworks and policy traditions are key factors in determining the development and evolution of policy approaches and structures (Blom-Hansen 2005; Allen 2005, 2008; Hooghe 1996; Jones & Keating 1995). Such analyses emphasise the modulating or limiting effects of domestic institutions and practices, arguing that domestic institutions and especially pre-existing, domestic institutional infrastructures limit the influence of the EU and set a distinct policy path. These arguments can be applied to the field of regional policy. EU cohesion policy is non-regulatory: it does not have the legal authority to demand harmonisation of member state regional policy systems, but rather to supplement and support them. Thus, the SF programmes financed under cohesion policy cannot fully dictate the exact content and approach of all aspects of national regional policy. Policy actors and institutional legacies can resist or facilitate change, and cohesion policy approaches and influences are themselves subject to change. Even in member states where cohesion policy programmes have been vital in economic development, their influence is strongly conditioned by domestic preferences. For instance, analyses of the case of southern Italy argue that EU funds have reinforced rather than caused domestic change (Bull & Baudner 2004, p. 1072). Similarly, in Ireland the influence of SF programmes on domestic regional policy approaches has been strong, but adaptation processes have been carried out in an incremental way and largely on the country's own terms (Adshead 2005, p. 175).

External factors must also be taken into account: Europeanisation processes take place in the shadow of globalisation, neoliberal decentralisation and, most recently, global economic crisis. Processes of Europeanisation also vary over time. During periods of radical institutional change, there may be increased scope to change policies radically, including through Europeanisation. In the longer term, increasing experience of implementing EU policies can facilitate Europeanisation. On the other hand, over the years deeply embedded domestic practices or traditional political and social institutions can reassert themselves (Cirtautas & Schimmelfennig 2010).

In the CEE context, these debates are particularly pertinent. As these countries prepared to join the EU in 2004 and 2007, direct and indirect pressure to comply with EU regional policy approaches was evident. The prospect of EU accession gave the European Commission considerable leverage over aspiring members from CEE and there was considerable scope for domestic policy practices to be influenced by external EU policy practices (Börzel 1999; Ferry 2007). According to Börzel (2010), accession conditionality gave the European Commission a powerful tool to pressure the CEE countries towards down-loading the comprehensive *acquis communautaire* and introducing institutional reforms (Börzel 2010). Throughout the accession negotiations, the Commission set priorities and targets for regional policy reform in the *acquis* and in Commission opinions. Moreover, the European Commission offered financial and technical support in key areas. Pre-accession support provided through PHARE (Poland and Hungary: Assistance for

Restructuring their Economies—subsequently expanded to other CEE countries), ISPA (Instrument for Structural Policies for Pre-Accession) or SAPARD (Special Accession Program for Agricultural and Rural Development) provided significant financial and technical assistance (Bailey & de Propris 2004). This support for capacity building assisted the CEE governments in meeting some of the costs associated with adaptation (Börzel 2010). Such assistance had a particularly strong influence and impact as the CEE member states lacked a strong tradition of regional policy and the institutions and practices associated with it (Sissenich 2007). Additionally, pressure to rapidly fulfil accession criteria and implement change gave domestic actors and organisations little time to mobilise and influence the course of change (Raik 2004; Zubek 2008; Börzel 2010).

Following accession, the volume of resources available to the CEE member states through cohesion policy increased significantly. The allocation of cohesion policy funding is automatically skewed towards less developed member states and regions. Table 1 sets out the allocation of cohesion policy funding to member states as a share of total domestic spending on economic development. This illustrates stark differences in the role that the

TABLE 1
RELEVANCE OF COHESION POLICY ON NATIONAL EXPENDITURE FOR DEVELOPMENT (ANNUAL
AVERAGE 2000–2006)

<i>Country</i>	<i>Structural and Cohesion Funds as % of expenditure for development</i>
Latvia	81.8
Lithuania	80.9
Slovakia	58.9
Estonia	55.3
Portugal	52.1
Poland	50.3
Greece	39.3
<i>EU10</i>	36.4
Hungary	29.7
Slovenia	21.7
Spain	20.5
Czech Republic	13.5
Malta	12.8
<i>EU25</i>	10.6
Cyprus	9.4
<i>EU15</i>	8.5
Ireland	7.5
Italy	7.4
Finland	6
Germany	5.2
United Kingdom	4.2
France	3.1
Sweden	2.9
Austria	2.6
Belgium	2.1
Denmark	1.9
Netherlands	1.3
Luxembourg	0.8

Note: Estimate calculated on total allocation and in relation to the period 2004–2006 for new member countries and EU25. ESF is not included in coherence with EfD calculation.

Source: Ismeri Europa and Applica Processing for DG Regio (2010, p. 187).

policy plays in broader development policy, particularly between richer, older member states and less developed, newer member states, including those from CEE.

It should be stressed that the figures in Table 1 only cover the 2004–2006 period. In the current programming period (2007–2013) CEE member states have received considerably more cohesion policy funding (see Table 2).

This level of funding suggests that traditionally weak domestic regional policy systems could be overwhelmed by EU cohesion policy programmes, leading to national regional policies becoming either ‘replicas’ of cohesion policy or being completely subsumed into cohesion policy programmes.

On the other hand, there are arguments that specific factors in the CEE context have constrained Europeanisation. First, there has been uncertainty in the type of regional policy model supported by the EU in the CEE context. Throughout the accession process, there was vagueness and ambiguity in the conditions set by the EU in this field. This was related to the weakness of domestic regional policy systems. For instance, there have been tensions between the espousal of administrative regionalisation as part of cohesion policy governance arrangements and concerns about the capacity of nascent sub-national levels in CEE to manage cohesion policy programmes efficiently (Grabbe 2001). The cohesion policy objective of convergence is similarly opaque in the CEE context. Many CEE national economies are still catching up with older member states while facing entrenched, internal regional economic differences. Against this background, does convergence refer to the convergence of CEE national economies with the EU average or the convergence of territories within these countries? It is also important to note that in the CEE context EU pressure has been only one of several motors driving broader systemic change as part of the post-communist reform process. Different aspects of different international and domestic agendas have conflicted or cohered. However, in this context of comprehensive systemic change, the influence of the EU was bound to be diffused to a certain extent.

With this in mind, nuanced analysis of cohesion policy influence in CEE is required. Most studies have generally focussed on specific structures and institutions in specific countries. Comparative analyses of the influence of EU policy approaches have, so far, been limited (Pitschel & Bauer 2009). Yet, for analytical clarity, it is important to specify what is being

TABLE 2
COHESION POLICY 2007–2013: INDICATIVE FINANCIAL ALLOCATIONS (MILLION €, 2008 PRICES)

	<i>Cohesion policy funds 2004–2006</i>	<i>Cohesion policy funds 2007–2013</i>
Bulgaria	–	6.853
Czech Republic	2.404	26.692
Estonia	615	3.456
Hungary	2.837	25.307
Latvia	1.031	4.620
Lithuania	1.379	6.885
Poland	11.202	67.284
Romania	–	19.668
Slovakia	1.544	11.588
Slovenia	432	4.205

Source: DG Regio, *Regional Policy Inforegio*, Division by Member State, available at: http://ec.europa.eu/regional_policy/policy/fonds/pdf/annexe-recto.pdf, accessed 24 July 2011.

transferred or uploaded and to what degree. In this context, policy transfer and policy termination literatures provide some useful organising frameworks (see [Figure 1](#)). For instance, they differentiate between different types of change, including processes of modification, adjustment, substitution or succession ([Hogwood & Peters 1982](#)). Different degrees of Europeanisation have also been identified ([Börzel & Risse 2003](#)). Absorption refers to the situation when member states manage to incorporate European policies or ideas and readjust their institutions without changing existing processes, policies and institutions significantly. In absorption, the extent of domestic change is not high. Accommodation occurs when member states respond to European pressure by adapting existing processes, policies and institutions without modifying their basic characteristics and the underlying collective understandings associated with them. The degree of domestic change taking place is modest. Transformation refers to cases where the extent of domestic change is high. It takes place when existing policies, processes and institutions are replaced with new, substantially different ones, or changed to the extent that essential characteristics and/or the underlying collective understandings are fundamentally modified.

These literatures also help to clarify the object of transfer by distinguishing between policy goals, content and instruments ([Dolowitz & Marsh 2000](#)). Current analyses of Europeanisation processes increasingly take this approach, distinguishing between different types of change that refer to varying dimensions of a policy area. This permits more precise analyses of the scope and direction of Europeanisation ([Knill et al. 2009](#)). Policy termination literature can also contribute to this analytical framework. A ‘termination schemata’ initially developed by [DeLeon \(1978\)](#) breaks policies down into fundamental components of analysis and argues that each has different potentials to resist policy change. For instance, overall policy settings (how the policy in question relates to the basic functions of the state) are based on fundamental assumptions about the role and responsibility of government, transcending specific instruments or organisations. These could be anticipated to be strongly resistant to radical change. In terms of the extent of Europeanisation, it is arguable that processes of absorption are more likely to take place when questions of regional policy objectives (how funding is thematically and spatially targeted) are considered. On the other hand, the literature on change among institutions (understood as formal organisational relationships among government agencies, with accompanying rules and decision-making mechanisms) emphasises a Darwinian perspective and the propensity

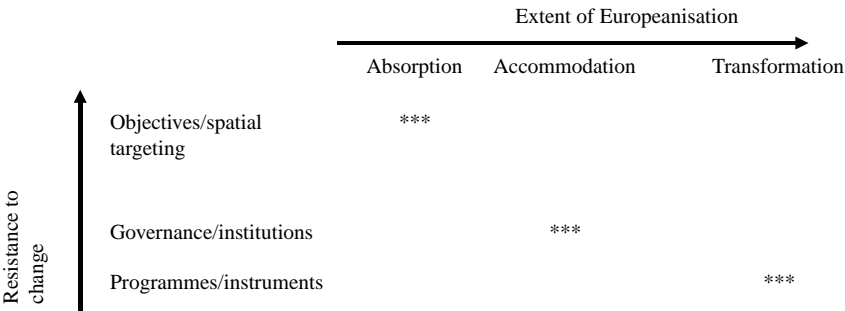


FIGURE 1. THEORETICAL MODEL OF EUROPEANISATION PROCESSES IN POLICY SUB-SYSTEMS.

for institutions to adapt and evolve in order to achieve longevity and resilience (Zhang 2009). The longer they survive, the more established they become and the more resistant to the threat of radical change. In terms of Europeanisation, this indicates that processes of accommodation are likely. Specific programmes and instruments are general approaches or strategies applied to the performance of government. For several reasons, these components are more susceptible to significant change or transformation than state functions or organisations. Organisations usually act out of self-preservation and will sacrifice a programme or instrument in order to save the whole. New programmes or instruments with different characteristics can replace terminated policies. Organisations usually have stronger political support than policies. Also, policies are easier to isolate and evaluate than organisations, which may have multiple policy objectives (Daniels 1997). Thus, under this heading, Europeanisation is more likely to involve transformation.

Drawing on these literatures, and then exploring the questions they raise, this paper draws on evidence from a range of regional policy contexts in all of the CEE member states. Key to this approach is the evidence base provided by long-term regional policy research undertaken by the authors. An annual survey and assessment of national regional policies, undertaken for the last ten years, provides in-depth and long-term information on the legal basis, objectives, spatial focus, instruments, governance, implementation, financing, monitoring and evaluation of regional policies of all the CEE EU member states. The research involves the analysis of primary sources, such as policy documents and evaluations, and elite-level interviews with regional policy makers in CEE member states and with the European Commission.

Regional policy in the CEE member states and the influence of EU cohesion policy

At the outset of the analysis, it is important to be clear about what regional policy is exactly. A useful way of approaching this is through a brief account of the regional policy paradigm shift which is covered extensively in the literature. Over the past decade, regional policy in many EU member states has undergone extensive reassessment. In virtually every country there has been a debate about the future of regional policy, followed by changes that often represent a significant break with past practice (see Table 3). The characteristics of the policy shifts are varied, but essentially they focus on regional growth rather than the redistribution of resources. Instead of targeting intervention selectively on struggling regions, newer regional policies encourage development in all territories, increasingly attempting to capture socio-economic processes that traverse administrative boundaries. The use of standard policy tools (such as financial subsidies and incentives) is being superseded by decentralised regional policies that are broader in scope and instruments, often involving programmes that contain a range of actions. The focus of new policies tends to be on regional capabilities and the role of regional policy is now to mobilise a more effective use of public and private resources rather than direct intervention. As part of this, traditional hierarchical relationships, where national governments monopolised policy administration, have been supplanted by more network-based arrangements involving a wider range of participants at multiple levels and relying on cooperative structures.

The following sections break regional policy down into basic components: objectives, instruments, spatial targeting and governance. After outlining key characteristics of

TABLE 3
THE OLD AND NEW PARADIGM OF REGIONAL POLICY ACCORDING TO THE OECD

	<i>Old paradigm</i>	<i>New paradigm</i>
Problem recognition	Regional disparities in income, infrastructure stock and employment	Lack of regional competitiveness, underused regional potential
Objectives	Equity through balanced regional development	Competitiveness and equity
General policy framework	Compensating temporarily for location disadvantages of lagging regions, responding to shocks (e.g. industrial decline) (Reactive to problems)	Tapping underutilised regional potential through regional programming (Proactive for potential)
Theme coverage	Sectoral approach with a limited set of sectors	Integrated and comprehensive development projects with wider policy area coverage
Spatial orientation	Targeted at lagging regions	All-region focus
Unit for policy intervention	Administrative areas	Functional areas
Time dimension	Short term	Long term
Approach	One size fits all approach	Context-specific approach (place-based approach)
Focus	Exogenous investments and transfers	Endogenous local assets and knowledge
Instruments	Subsidies and state aid (often individual firms)	Mixed investment for soft and hard capital (business investment, labour market, infrastructure)
Actors	Central government	Different levels of government, various stakeholders (public, private, NGOs)

Source: OECD (2010).

cohesion policy, the extent to which these are apparent in contemporary CEE domestic regional policy systems is explored.

Changes in regional policy objectives

Under the analytical framework set out above, policy objectives should be difficult to change through processes of Europeanisation as these relate to the basic functions of the state, based on fundamental assumptions about the role and responsibility of government. Under regional policy, these can concern commitments to address territorial imbalances in standards of living or access to services. In the early post-communist period, regional policy objectives in CEE countries were commonly uncoordinated and strategically weak (Bachtler *et al.* 1999). During the second half of the 1990s, many of these countries began to put in place national regional policy legislation that included strategic objectives; for example Hungary (1996), Poland (1998), Romania (1998), Bulgaria (1999), Slovenia (1999), the Czech Republic (2000), Lithuania (2000) and Slovakia (2001). These national regional policy objectives included a significant equity component, emphasising balanced regional development and the need to reduce regional disparities (Yuill & Quiogue 2005). In general, however, this legislation was part of the preparations for EU accession: the drafting

of legislation, concepts or strategies set out the main objectives of regional policy within a framework that reflected EU goals. This was manifested in several ways. Several national regional policies explicitly stated that one of their basic objectives was to take full advantage of the opportunities offered by EU regional policy. Many of these domestic policy strategies, plans and objectives were developed as an explicit mechanism to bring national regional policy into line with EU policy approaches and were used as framework documents for EU programmes. For instance, the Estonian Regional Development Strategy of 2005 was specifically designed to update the previous strategy, recognising that the parameters of national regional policy needed to be reviewed in the light of EU cohesion policy. Cohesion policy has had a significant effect on the national policy framework in Hungary. The way that national regional policy objectives are expressed through identifying objectives and then setting priorities and measures is modelled on cohesion policy, suggesting that there has been a substantial cultural and operational impact (EPRC & Euroreg 2010). Another sign of the increasing influence of the EU regional policy model was the multi-annual perspective of domestic strategies and objectives. In the literature, the cohesion policy principle of multi-annual programming is noted as a potential factor in altering the strategic focus of domestic regional development. Evaluations of some cohesion policy programmes contend that they introduced more strategic, long-term conceptualisation of domestic regional development objectives (ÖIR 2006, p. 136).

The influence of the EU has also been reflected in the type of objectives set out in these strategic documents and the language which is adopted to describe them. Over the past decade, there has been a clear thrust in cohesion policy towards objectives that foster competitiveness, entrepreneurship and innovation, in line with the priorities set out in the EU's Lisbon Agenda for Growth and Jobs (Bache 2008). There is evidence from elsewhere in the EU that cohesion policy programmes can push domestic regional policy objectives in this direction. In Italy, for example, established domestic interventions based on redistributive state support for depressed areas, particularly in the Mezzogiorno, were replaced in the course of the 1990s by efforts to mobilise endogenous regional economic and social resources. The attachment of domestic policy instruments to SF programmes has been seen as an important factor in this changing orientation of regional policy (Bull & Baudner 2004, p. 1069). Similarly in CEE, the language adopted in most national regional policy documents has increasingly reflected a strong cohesion policy influence, with comparable objectives being expressed in similar ways. This refers to broad objectives such as competitiveness and endogenous growth. Despite the persistence of regional disparities within many CEE countries, the priority attached to competitiveness-related themes has increased, in keeping with cohesion policy trends over the past decade. For instance, the new National Strategy for Regional Development in Poland, launched in 2010 has as its first objective 'supporting the growth of competitiveness of regions (competitiveness)' (Polish Ministry of Regional Development 2010, p. 5). This applies to the whole Polish territory and aims to utilise the potential of those areas that have the greatest capacity to spur economic growth, especially the largest urban centres, in Warsaw and other regional centres (Polish Ministry of Regional Development 2010).

From this perspective, EU policy influence on regional policy objectives seems to be clear-cut and direct. However, the depth of EU influence over objectives can be questioned. In the lead up to accession, CEE member states were quick to adopt strategic regional planning and regional policy objectives informed by EU development goals and objectives.

However, member states, including those from CEE, interpret cohesion policy objectives according to their own needs and priorities. An example of this is the inclusion of objectives associated with the Lisbon agenda. For the 2007–2013 period, SF programmes were obliged by the EU to earmark or dedicate a percentage of funds for investments that directly strengthen competitiveness and job creation in research and innovation, human capital, business services, major European infrastructures and improvement of energy efficiency. In CEE, strong commitment to Lisbon goals is evident from the increased and sizeable volume of cohesion policy earmarked expenditure (especially in Poland, Slovenia, Slovakia, Latvia, Cyprus and Czech Republic), despite not being formally bound by the rule. On the one hand, this suggests that the CEE countries have been particularly receptive to ‘EU norms, incentives and discourses transmitted through EU cohesion policy’ (Scherpereel 2010, p. 46). From a more critical perspective, the earmarking exercise illustrated the scope for cohesion policy objectives to be shaped and diluted as the cohesion policy regulations are negotiated with member states. At different stages, extra categories were added to the Lisbon categorisation, some of which were regarded by the Commission as being inconsistent with the spirit of the Lisbon agenda (Mendez 2011). Similar tensions are reflected in current debates on the European Commission’s proposals to concentrate cohesion policy funding in the next programming period 2014–2020 on a limited number of priorities related to the Europe 2020 strategy (including energy efficiency and renewable energy, SMEs and innovation). The need for flexibility to adapt EU priorities to national and regional contexts has been underlined in virtually every member state response to these proposals. The need to provide scope for other priorities that are less prominent in the Europe 2020 strategy, notably basic infrastructure support, has been emphasised in several CEE member states (Bulgaria, the Czech Republic, Latvia, Lithuania, the Slovak Republic) (Council of the European Union 2010). Thus, domestic regional policy objectives in CEE increasingly favour competitiveness over equity aims, in line with the turn towards competitiveness under cohesion policy since the launch of the Lisbon agenda. However, the meaning of these concepts and the regional policy activities that they support has been adapted in the process, incorporating domestic preferences.

The breadth of EU influence can also be debated. Domestic policy has not been entirely subsumed by EU policy approaches, retaining distinctive characteristics and elements. National regional policies continue to reflect the particular territorial development challenges faced. In Estonia, long-standing problems linked to rural development are targeted. In Slovenia, ‘demographically endangered areas’ (those threatened by outmigration and population ageing) are supported in an attempt to halt out-migration and the de-population of highland and peripheral areas. Romania’s National Strategy for Regional Development highlights the specific needs of towns dominated by a single industrial employer. In the Czech Republic, the split between equity and competitiveness objectives, to a certain extent, mirrors the division of domestic and cohesion-policy funded activities. Overall, equity-related objectives are associated in particular with purely domestic regional policy while competitiveness-oriented aims are linked to EU cohesion policy. Although the expenditure options of purely domestic regional policy are very limited, it still plays a role in some struggling regions (for example in support for the revitalisation of military areas and real estate left by the army and support for the revitalisation of small villages) (Fertrová *et al.* 2011).

Finally, it is important to note the emergence in some CEE member states since 2010 of new national regional policies that are distinct from cohesion policy. Having gained experience with cohesion policy, these countries are developing or debating new domestic regional policy frameworks to determine or guide broader, national approaches to regional development. The leading example of this trend is the launch of the new National Strategy for Regional Development (*Krajowa Strategia Rozwoju Regionalnego 2010–2020*, KSRR) in Poland. The KSRR has been judged to be, at least partly, an assertion of Poland's domestic regional development vision, aligned with—but distinct from—cohesion policy (Grosse 2009). A similar development is under way in Slovakia (Obuch 2010). The 2008 Act on Support to Regional Development adopted in 2008 stressed the primary role of domestic resources (national, regional and local) for achieving regional policy objectives, with cohesion policy instruments seen as providing additional funding. The National Strategy for Regional Development of 2010 made an initial attempt to define the objectives of domestic regional policy, without being primarily influenced by cohesion policy (Bachtler 2011). In the Czech Republic, a debate has been initiated by the Ministry of Regional Development on the future of domestic regional policy. Work is underway on a new new-generation Regional Development Strategy for 2014 and beyond (RDS 2014 +) (Fertrová *et al.* 2011). This assessment suggests that a domestic political will to assert national policy leadership and to address specific domestic regional development concerns, as opposed to solely fulfilling EU policy objectives, remains. Looking to the future, the role of domestic policy could intensify. As cohesion policy programmes potentially take a narrower view of regional economic development, and one focussed on growth in all regions, the CEE member states may not wish to be constrained by a comparatively narrow set of EU-led regional economic development goals (Jermolajeva 2011).

Changes in spatial targeting

The spatial targeting of regional policy is closely related to policy objectives and could also be expected to display strong domestic preferences in the face of Europeanisation processes: given entrenched assumptions it is difficult to change the state's commitment to supporting specific territories. However, EU policy exercises fixed constraints on which geographical areas can receive regional aid. Member states must win the approval of the Competition Policy Directorate of the European Commission (DG Competition) under either Article 87 (3)(a) or Article 87(3)(c) of the EC Treaty. These articles provide for two regional policy-related exceptions to the general ban on state aids that distort or threaten to distort competition or the production of certain goods. This covers the least developed regions with a GDP of less than 75% of the EU25 average and those with a GDP which exceeds 75% of the EU25 average purely because of the statistical effect of enlargement (the so-called 'statistical effect' regions). It also allows limited regional aid to be offered by member states to other areas according to population coverage set by the Commission and negotiations over regional aid maps. Moreover, under cohesion policy EU funds are implemented according to spatial or territorial criteria. The receipt of cohesion policy funding requires the establishment of specific spatial categorisations (NUTS 2 and NUTS 3) that provide the statistical basis for allocating aid. Cohesion policy funds are allocated according to a specific classification of objectives. In the current programming period, there is a Convergence Objective, aimed at speeding up the convergence of the least developed

member states and regions. It accounts for around 80% of cohesion policy spending across the EU. It funds investment in improvement of the quality of investment in physical and human capital, the development of innovation and of the knowledge society, adaptability to economic and social changes, and of the protection and improvement of the environment and administrative efficiency. It is focussed on the poorer regions, defined at NUTS 2 level: only those with GDP per inhabitant less than 75% of the Community average are eligible for funding. The Regional Competitiveness and Employment Objective is designed to act outside the least developed regions, supporting competitiveness and attractiveness as well as employment by anticipating economic and social changes. There is also a European Territorial Cooperation Objective that has the aim of strengthening cross-border cooperation through joint local and regional initiatives.

In CEE, the spatial coverage of cohesion policy is across all territories in a member state, rather than a limited number of designated areas. The vast majority of CEE regions qualify under the Convergence classification and are eligible for the most generous allocations of regional aid. In relation to the state aid regulations, the CEE member states' low levels of regional GDP relative to the EU average allow these CEE countries almost total coverage and high rates of award. Under the regional aid guidelines for 2007–2013, many CEE states retained 100% population coverage, although aid levels were reduced in a number of regions. Processes of Europeanisation can be identified. Cohesion policy has extended spatial coverage to all regions in CEE member states. Whereas domestic regional policies traditionally targeted specific territories, usually the most underdeveloped areas suffering from high unemployment or poor economic performance, they now refer to all territories in a country. Moreover, the basic spatial unit for domestic regional policy is the NUTS classification associated with cohesion policy.

However, as under other headings, the extent to which processes of Europeanisation have shaped the spatial orientation of CEE regional policy has to be carefully assessed. On the one hand, member states have significant leverage to reflect domestic perspectives in the territorial allocation of cohesion policy resources. Although eligibility for convergence status is determined at the NUTS 2 level, member states can take a number of different approaches to the geographical allocation of funds within this formal constraint (Davies & Gross 2005). The scope to target EU resources domestically is strong in those CEE countries where almost all NUTS 2 regions are covered by the convergence category and decisions are less constrained by questions of spatial eligibility. The scope for domestic considerations to inform the territorial allocation of cohesion policy funding is further strengthened by ambiguities in the EU's approach. Beyond the issue of overall coverage, there are possible tensions intrinsic to cohesion policy when it comes to deciding the territorial focus of the policy. These tensions stem from questions concerning the compatibility of objectives related to competitiveness and cohesion. The objectives of the Lisbon agenda stress competitiveness (emphasising innovation policy, entrepreneurship and business support) while the EU has long-standing commitments to social, economic and territorial cohesion.

Although there are situations when both of these goals are compatible, at other times there have been clear tensions between competitiveness and the EU's long-standing commitment to economic, social and territorial cohesion. These tensions have strong spatial or territorial dimensions. First, there is a potential trade-off between competitiveness and cohesion as emphasis on the former can encourage development patterns that accentuate differential growth rates in growth centres and peripheral areas. Cohesion policy is aimed at enabling

low performing regions to catch up and to reap the socio-economic benefits of EU membership but the competitiveness priority of the Lisbon agenda was expected to enable the best performing regions to strengthen their competitiveness more globally. Moreover, while there is a prominent regional dimension and multi-level governance structure in cohesion policy, the Lisbon agenda has a strong top-down dynamic with earmarked targets set for member states and based more on national-level, macro-economic dimensions.

These tensions in territorial focus within cohesion policy become particularly marked in the CEE context where national economies are still catching up with EU averages but where internal differences between territories are entrenched and often involve some of the poorest regions in the EU. Should the territorial focus be on external convergence of CEE national economies with the EU average (implying support for national drivers of economic development, including the major cities or agglomerations as growth poles)? Alternatively, should a pro-equity emphasis be placed on internal convergence among regions (suggesting a focus on lagging territories)?

The ambiguous spatial focus of cohesion policy in CEE, combined with the leverage exercised by member states, is reflected in significant variation in the territorial focus of cohesion policy programmes across countries. A complex territorial picture emerges, with different combinations of competitiveness and cohesion-based resource allocation mechanisms. Rather than the preferences of the EU, this variation is informed by domestic conditions such as the size of the country, the scale of interregional disparities, the extent of fiscal decentralisation and specific territorial issues. For instance, the extent to which cohesion policy resources are explicitly regionally targeted varies. In the 2007–2013 period, only four member states implemented a proportion of cohesion policy funding through regionalised operational programmes (ROPs), accounting for 25% in Poland (16 ROPs), 23% in Hungary (seven ROPs), 18% in the Czech Republic (eight ROPs) and 13% in Slovakia (two ROPs). Some member states explicitly pre-allocate cohesion policy funds to specific regions or areas, while others do not. Poland has a special multi-regional cohesion policy programme that covers poorer regions in the east of the country. Similarly, Slovenia and the Czech Republic have systems in place that give preference to the structurally weak regions when applications for cohesion policy funding are considered.

Cohesion policy strategies and programmes across CEE reflect the current emphasis given by the EU to the identification of growth poles, usually associated with the main cities and agglomerations in member states. For example, in Hungary the five main urban agglomerations (with the exception of Budapest) are part of a competitiveness pole programme co-funded by SF. The programme aims to establish innovative clusters that, in the long term, would function as networking and development hubs. In Romania, there are two categories of urban growth poles in SF programmes: seven national growth poles (*poli nazionali de crestere*) and 13 urban development poles (*poli de dezvoltare urbana*). Urban development poles should act as links between national growth poles and small and medium-sized towns and reduce population and labour force concentration in the major agglomerations and support the creation of territorially balanced economic development structures.

On the other hand, resource allocation systems under cohesion policy also produce a pattern of territorial distribution that often favours equity-based criteria, informed by domestic regional policy approaches in CEE. In Poland, the system for allocating funding to the domestic regional contracts is based on an algorithm that includes equalisation criteria

(number of inhabitants—80%; regions with *per capita* GNP below 80% of the national average—10%; population living in districts with an unemployment rate above 150% of the national average for the last three years—10%). This same system has been applied to allocate funding among ROPs funded by cohesion policy. Some CEE countries focus funding by allocating a share of the national SF budget to specific regions (often those that have been the focus of domestic regional policy interventions). Hungary earmarks a significant share of SF support for the country's 33 structurally weakest regions. Other countries are prioritising applications from selected areas as part of their project calls in SF programmes. This is done, for instance, in the Czech Republic, where the South Moravian self-governing region targets its most underdeveloped areas. Similarly, Slovenia gives preference to the structurally weak Pokolpje and Pomurje regions when applications for cohesion policy funding are considered.

Thus at a general level, the spatial dimension of CEE regional policy has been Europeanised. Regional policy in these countries is now assessed from a country-wide perspective and on the basis of NUTS classifications. However, the relationship between the EU and member states in setting the territorial focus of cohesion policy is interactive. Ambiguities in the cohesion policy agenda and strong leverage on the member state side, particularly in CEE, means that the influence of domestic regional policy priorities on the territorial allocation of cohesion policy funds is strong and processes of accommodation rather than transformation have taken place. In future programming periods, it is possible that a growing number of territories will lose eligibility for cohesion policy convergence funding and for the highest levels of admissible regional state aid. Under these conditions, the scope for the reassertion of domestic territorial priorities, delineated from those under cohesion policy, will increase.

Changes in governance and institutions

The literature on institutional change emphasises a Darwinian perspective and the propensity for institutions to adapt and evolve in order to achieve longevity and resilience. The longer they survive, the more established they become and the more resistant to the threat of radical change and transformation. A central theme of policy debates on the governance of regional policy is the optimal territorial scale for policy planning, financing, monitoring and steering. In line with the principle of subsidiarity, the management and implementation of cohesion policy is supposed to be carried out as close to the territory they operate in as possible. It has been argued that this has increased the involvement of regional and local authorities in the administration of EU programmes and even stimulates the creation of regional-level frameworks in domestic administrative systems (Marks *et al.* 1996; Börzel 1999). Linked to the demands of cohesion policy, reforms have introduced a variety of regional policy implementation systems and a range of new administrative structures at national and sub-national levels and strengthened administrative capacity for the implementation of regional policy, becoming important components of domestic regional policy systems in their own right.

Through the accession process, the status and power of regional policy institutions at the national level were enhanced in CEE countries. Until the mid to late-1990s, national-level institutional arrangements for regional policy in the CEE member states were, in many cases, non-existent or *ad hoc*. One of the basic challenges faced by candidate countries was

the establishment of national-level bodies to assume responsibility for the financial management and coordination of pre-accession regional development aid under the pre-accession PHARE programme. This contributed to the establishment of ministries, as in the Czech Republic and Slovakia, and, elsewhere, the establishment of regional development departments within existing ministries.

There was vagueness and ambiguity in the European Commission's attitude to the role of sub-national levels in implementing the funds. The general pattern was for the Commission to highlight inadequacies in sub-national administrative arrangements at the start of pre-accession negotiations, through reference to Chapter 21 of the *acquis communautaire*. This provided a prompt for sub-national administrative reforms. Subsequently, however, as accession approached, the Commission increasingly stressed the need for efficient administration of the funds. Concerns about administrative capacity in newly-established sub-regional structures inevitably prompted centralist solutions (Bache 2008). The Commission, initially credited with promoting change, was subsequently perceived to have approved centralist models. In Slovenia, for example, the Commission was initially critical of the lack of decentralisation in the country and proposed the establishment of regional development agencies. However, during the final months of negotiation over the regional policy chapter of the *acquis*, the Commission decided that it would be most efficient for Slovenia to be treated as a single region (Faro 2004). The pattern was broadly similar, even where processes of administrative reform had led to the establishment of new units of regional self-government. National administrations and the European Commission were again reluctant to entrust sub-national authorities with management responsibilities for SF programmes. Instead, in Poland and the Czech Republic, integrated regional operational programmes were managed at the central level, with regional governments responsible only for some aspects of the implementation process. Thus, during this period, a type of Europeanisation process could be identified. Countries with varying regional policy systems tended to follow similar reform paths, driven by cohesion policy requirements. This included the incorporation of some decentralised components (such as sub-national statistical units, committees and implementing agencies). In the wake of accession, critics of the 'Europeanisation as regionalisation' argument questioned the embeddedness of new regional institutions created through the impact of bodies established through the influence of cohesion policy. Doubts persist over how relevant and enduring new regional arrangements are outside the SF context, particularly against a background of economic recession and fiscal constraint. Regional authorities could be dismissed as window dressing, designed to cut off Commission complaints about a lack of devolution and subsidiarity. There are arguments that the process of Europeanisation was shallow or superficial to the extent that these changes occurred within a system where traditionally centralised approaches to policy implementation were maintained or reinforced (Bache *et al.* 2011).

However, an assessment of the evolution of regional policy implementation arrangements in these countries during the current cohesion policy programming period (2007–2013) reveals a process of divergence. In some cases, sub-national authorities are emerging as genuine partners in the implementation of regional policy, approaching the model of regional policy governance espoused by the EU. Some CEE member states are now developing or debating new domestic regional policy implementation frameworks, where sub-national input is strengthened. The influence of cohesion policy in these cases is evident. Reforms are partly to provide a basis for the next generation of Structural and

Cohesion Funds programmes after 2013, but also to manage and implement broader, national development actions.

In Poland, legislation introduced for the 2007–2013 SF programming period strengthened the role of Polish regional governments. The basis for this is the Law from December 2006 on the Principles of Development Policy.¹ As a result, in 2007 Polish regions assumed the role of Managing Authorities for EU-funded ROPs (in the period 2004–2006, regional governments had merely implemented a centrally managed Integrated Regional Operational Programme). As such, regional self-governments are now much more involved in decisions concerning how funds are allocated in their territories. One of the spill-over effects noted from the management of cohesion policy was the establishment of permanent meetings between the national Ministry of Regional Development and regional self-governments at the regional level, as part of the domestic regional policy system (EPRC 2009). From 2009, as work progressed on a new National Strategy for Regional Development, regional and local governments have assumed more responsibility for issues such as social welfare, regional agricultural advice centres and for the establishment of nature reserves. Some staff working in the Voivod offices (the office of the centrally appointed regional governor) have transferred to regional governments. In the Czech Republic, the regional level, consisting of the self-governing regions whose existence is embedded in the Constitution, forms basic building blocks for the implementation of regional development support. The importance of self-governing regions has increased in recent years thanks to the cohesion policy as the regional authorities have been engaged in the managing structure of SF in the Czech Republic in the form of regional operational programmes (Postránecký 2010). Indeed, Czech self-governing regions are arguing strongly to maintain regional operational programmes for the period after 2014 (Asociace Kraju České Republiky 2011).

Elsewhere in the CEE member states, regional policy implementation systems are taking different trajectories. Over time, the responses of individual domestic systems to the organisational principles or themes associated with programmes become more distinct. Following the drive to meet the fundamental conditions set by the EU, medium or longer-term trends become clearer. Moreover, the differential impact of a range of factors on post-accession approaches to regional policy becomes more apparent as time passes. These factors include the impact of the economic crisis. Austerity measures in several countries are leading to significant cuts in public expenditure and redefining the way in which government intervention is managed and delivered. In Lithuania, for instance, the intermediate-level administration structures, the county's Governors' Administrations, have been downgraded to statistical units, reallocating their administrative functions to central government ministries as well as municipalities. The justification for these reforms was the need for more effective public sector organisations and public services delivery, reduced bureaucracy, savings and less duplication of functions in public administration institutions.

Political factors are also playing a part in determining regional policy implementation systems. Hungary provides an interesting case. In the pre-accession period, proposals to create directly elected regional self-governments were announced by the socialist government but these were opposed by the European Commission due to capacity concerns

¹Dz.U.06. nr 227, poz. 1658, with subsequent amendments, available at: <http://isap.sejm.gov.pl/DetailsServlet?id=WDU20062271658>, accessed 6 January 2012.

(Horváth 2008). Since accession, the impasse over regional administrative reform has remained as a result of political consensus among governing parties on an essentially centralist model of economic development (Korkut 2011). In Romania, the reallocation of competences between administrative levels has been the subject of heated debate over the past year. This includes proposals to strengthen the country's eight statistical regions at NUTS 2 level by transforming them into administrative structures. The current cohesion policy programming period has revealed a series of cases where these regions have not been able to promote larger scale, inter-county projects because they lacked the legal authority. The county level has this authority but often fails to develop joint projects. Different options for the new administrative region structure have been discussed, with variations ranging from eight up to 16 new units. The EU has called for an increase in sub-national administrative capacity for the improvement of the absorption rate of EU funds. However, political stalemate on the extent of administrative regionalisation and future administrative boundaries has stalled the debate and reforms have been postponed (European Parliament, Committee on Regional Development 2011).

This analysis of Europeanisation processes in regional policy governance arrangements in CEE countries reveals two different phases. First, from the beginning of pre-accession negotiations to the end of the 2004–2006 programming period, a general process of superficial Europeanisation took place. Across CEE, national regional policy systems converged on a broadly similar path, albeit within different institutional contexts, where decentralised components were introduced without altering an essentially centralist approach to development policy. Second, since 2006, trajectories have diverged and an increasingly differentiated picture has emerged. Sub-national levels have become more embedded in the process of regional policy management and implementation, along the lines of the multi-level model of governance espoused in theory by the European Commission. In this sense, processes of Europeanisation have intensified. However, this has only occurred in a limited number of cases, notably where pre-accession administrative reforms included the establishment of self-governing intermediate units. In these cases, existing sub-national government structures have successfully exploited the opportunities offered by cohesion policy management and implementation to build competences, capacity and resources. Elsewhere, the process of 'Europeanisation as decentralisation' is less evident and the superficiality or fragility of EU-inspired sub-national arrangements for the implementation of regional policy has been exposed by economic flux or political change. This supports insights from the literature that stress the importance of embeddedness in resisting organisational flux. In these CEE countries, the barriers for recentralisation were low, as organisations had existed for less than a decade.

Changes in policy instruments

According to the literature, individual programmes and instruments are the easiest components of policy systems in which to introduce radical change. As operational manifestations of policies, programmes are the primary focus of investigations and can easily be dropped and replaced with more effective programmes. Regional policy instruments cover a wide range of possible interventions. A basic distinction used in the regional policy paradigm debate is between traditional instruments based on top-down, aid-based, investment-oriented interventions that targeted designated problem regions and new

instruments implemented with multi-level government cooperation, programme-based and targeted at the entire country (OECD 2010). Domestic regional policy instruments in CEE member states generally fall into the former category. These traditional instruments can take a variety of forms. For instance, central governments can implement systems of grants or subsidies that provide support for local development. Funding tends to be directed at small projects, for example led by municipalities. For instance, in Bulgaria, a programme of targeted support is planned for municipalities in designated regions to design and implement small projects involving soft interventions with local significance. Supports are also provided in Latvia and Lithuania for local municipality investment projects, and small grants are available in Estonia for projects aimed at boosting regional competitiveness and service provision in sparsely populated areas. In cases involving large investments in regional infrastructure, business support and human resource development, policy interventions are generally funded through cohesion policy programmes.

Domestic instruments also include incentives for increased business investment in disadvantaged areas, such as state grants for Foreign Direct Investment in specific territories (for example in Poland and Slovakia). Tax relief for enterprises in special economic zones remains one of the most widely available incentives (for example in Estonia, the Czech Republic, Hungary, Latvia and Slovakia). In Bulgaria, investors are exempt from corporate tax in a number of regions, particularly in those with high unemployment. In Lithuania, two free economic zones, in Klaipėda and Kaunas, offer various incentives for businesses. In Hungary, the two key forms of investment incentives are aid granted under the Investment Incentives Decree and investment/development tax incentives. 'Tax holidays' are also available to encourage job creation in lagging regions of the country. In Slovakia, the most important domestic regional policy instrument, in terms of resources, has been aid to enterprises. In 2007, 41 individual measures and five state aid schemes, worth €145.05 million were provided in the form of income tax relief, grants and subsidies (Obuch 2011). Fiscal equalisation mechanisms can also be seen as a regional policy tool, redistributing tax revenues according to social or economic equity criteria. For example, in Lithuania a fiscal equalisation mechanism is applied to municipalities, based on the principle of territorially equitable service provision and focusing on social cohesion across territories. Finally, across CEE there are a series of *ad hoc* programmes targeting regions struggling with particular problems stemming from socio-economic structures, environmental problems or other specific issues. For instance, in Slovenia the law on support for the Pomurje region was introduced in late 2009 after the area had been severely hit by the economic crisis. It encompasses investment promotion, employment incentives, tax relief, and priority treatment of programmes and projects in the Pomurje region competing for funds from national programmes.

There are several explanations for the use of these types of instruments in CEE domestic regional policies. The implementation of small-scale, *ad hoc* interventions and passive instruments such as tax breaks is understandable given limited domestic resources for regional development. The idea is again to redress regional disparities and ensure socio-economic development in poor regions by attracting inward investment and supporting job creation. The operation of such instruments is constrained by the EU in richer member states on the grounds that it infringes the operation of the common market. However, the European Commission considers that such regional state aid is compatible with Community principles in regions with *per capita* GDP of less than 75% of the Community average. As the majority

of CEE regions are eligible for some form of regional aid under EU competition policy, regional policy legislation in these member states can make provision for extensive use of a range of investment incentives, including tax relief, guarantees for bank loans and credit incentives.

Nevertheless, over the last decade, independent, domestically funded policy instruments in CEE have been dropped or moved into cohesion policy programmes. For instance, in the Czech Republic all but a few, small-scale domestic instruments were subsumed into cohesion policy programmes for the 2007–2013 period. Currently only small grants and financial support to municipalities to regenerate land formerly used by the army and a fund for areas affected by flooding are resourced solely by domestic means. Since 2009 national funding for regional policy has been almost entirely abandoned in Latvia, and cohesion policy has become almost the sole source of financing for the development goals of national regional policy (Muravska 2011). In Romania until 2010, a number of domestic measures were available to address regional disparities, with a focus on disadvantaged areas, mostly mining areas, industrial estates (from 2001) and science and technology parks (from 2002). However, these domestic policy interventions were not renewed and, from 2010, such policies were funded through cohesion policy programmes (Constantin & Goschin 2010).

A key issue in this context is the requirement that cohesion policy interventions are co-financed by member states. This directly affects national expenditure commitments and the capacity for regional policy spending that is not tied to EU cohesion policy. This is particularly relevant in the case of the new member states where the 2007–2013 programming period involved a substantial upgrading of the EU funding contribution. Figure 2 shows the relative contributions of the EU and national budgets as a proportion of GDP. This shows that while the overall cohesion policy budget is substantial in most CEE member states, so too is their co-financing of cohesion policy as a proportion of GDP.

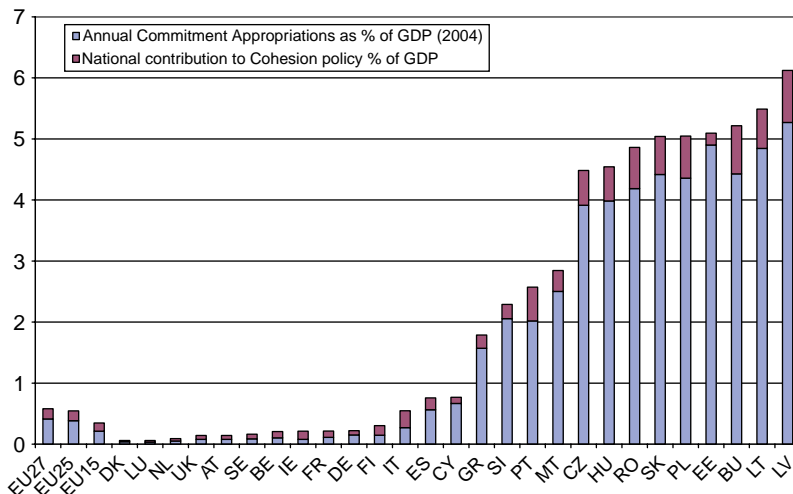


FIGURE 2. EU AND NATIONAL FUNDING OF EU COHESION POLICY 2007–2013—ANNUAL AVERAGE COMMITMENT APPROPRIATIONS (% OF GDP 2004).

Source: EPRC and Euroreg (2010, p. 42).

National co-financing varies widely—from under 0.08% of GDP (in Austria, Denmark, Germany, Luxembourg, Netherlands, Sweden and United Kingdom) to over 0.5% of GDP (in Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia). To illustrate this variation, the relative contribution of Latvia to cohesion policy is 40 times that of Denmark (EPRC & Euroreg 2010). Thus, what funding there is available for domestic regional instruments in CEE has often been used to provide co-financing. In Poland, a prominent domestic regional policy instrument has been regional contracts. These are signed agreements between the government and self-government authorities, under which regions receive a set budget from central government to support investments in a range of policy fields. However, since 2004 contracts have been treated by regional self-governments largely as sources of co-funding for initiatives undertaken under the cohesion policy Integrated Regional Operational Programme (2004–2006) and ROPs (2007–2013). As a result, there has been criticism of contracts as a means of outlining domestic co-financing contributions to EU-funded programmes rather than instruments setting domestic regional policy directions (Grosse 2006).

The onset of the global financial crisis and its impact on state budgets has deepened this trend. In Bulgaria, in 2009 a Programme for Implementation and Financing of Activities in the Areas for Targeted Support was prepared with funds from the state budget. The programme could not be launched, however, for reasons related mainly to the economic crisis and the shortage of sufficient funds (Spiridonova 2011). In Latvia, earmarked subsidies from the state budget to municipalities have declined due to the economic crises and the consequently reduced state budget. By 2010, earmarked subsidies were not covered in the state budget. The decrease in the national budget for regional policy was largely compensated by the inflow of EU funding (Muravska 2011). Moreover, although the Commission deems national assistance for struggling territories potentially effective in certain circumstances and hence justified on competition grounds, it explicitly states that national regional aid should be used sparingly and proportionately. Thus while most of CEE is eligible for this type of assistance, pressure from the Commission is still felt. The use of special economic zones in Poland, Hungary and other CEE countries has been the subject of strong debate between the EU and CEE member states. In Poland, harmonisation with EU state aid law substantially reduced tax benefits and special economic zones are scheduled to be phased out by 2020.

Thus, processes of Europeanisation are strong in the case of policy instruments in CEE, amounting to transformation. The reliance on EU transfers to fund policy instruments, due to the limited availability of domestic funding exacerbated by co-funding requirements, EU state aid restrictions and the onset of the global financial crisis, means that the most prominent domestic instruments have been subsumed into EU programmes. Over the last decade, independent, domestically funded policy instruments have commonly been abandoned or merged into cohesion policy programmes. Some domestically funded regional policy instruments persist but these are very limited in number and scope, mainly consisting of small-scale initiatives targeting local authorities or specific localities. This marks a significant change in the orientation of traditional CEE domestic regional policy tools as cohesion policy instruments are associated with the new regional policy paradigm. The use of 'standard' policy instruments (such as 'top-down' provision of subsidies targeting disadvantaged territories or the use of tax-based incentives) is being superseded by

decentralised regional policies that are broader in scope and instruments, often involving programmes that contain a range of actions.

It is possible to envisage in future that there will be a reassertion of domestic policy instruments. Cohesion policy resources require a high level of administrative and bureaucratic effort on the part of national administrations and also the end beneficiaries of the support. For instance, [Nakrosis \(2008, p. 215\)](#) highlights the findings of a study by the Lithuanian Public Policy and Management Institute that suggests that the administrative workload of cohesion policy projects are a main obstacle to implementing programmes of support. Additionally, policy interventions are planned and set out for seven-year periods, making them subject to criticism for being inflexible and unresponsive to rapid economic change, such as the global financial crisis. With this in mind, the retention of a more flexible, less bureaucratic strand to policy could be a valuable resource for the CEE member states. Concerns about absorption capacities and difficulties in engaging potential beneficiaries in administratively complex cohesion policy programmes could be addressed by maintaining a simpler form of support that can be provided through domestic instruments. Nevertheless, given the current financial context, in the short to medium term it is probable that cohesion policy instruments will be the dominant tools of regional policy in CEE.

Conclusions

This article has assessed the extent to which domestic regional policy systems in Central and Eastern European EU member states have been Europeanised through the management and implementation of cohesion policy. A basic conclusion is that no clear and unambiguous process of Europeanisation is apparent. The key argument of this paper is that directions of domestic regional policy change vary, with processes of EU policy absorption, accommodation and transformation evident. This variation occurs across time and across member states. Crucially, the interaction between cohesion policy and national regional policy systems also varies according to different regional policy components. In order to illustrate this theoretical argument, the paper drew on policy transfer and termination literatures to analyse the varying interaction of domestic regional policy and cohesion policy under different policy headings. By assessing recent changes to individual components of domestic regional policy systems in CEE policy (objectives, spatial targeting institutional frameworks and instruments) the scale and direction of change becomes clear. There are differences in the extent of Europeanisation, which has occurred primarily in specific, lower-level components of CEE regional policy systems rather than applying to the policy as a whole.

Regional policy objectives adopted by CEE member states are strongly informed by cohesion policy approaches and concepts, most notably long-term strategic planning. There is evidence that cohesion policy programmes can push domestic regional development objectives in new directions, reflecting new cohesion policy thinking. Policy aims related to competitiveness have come to prominence in domestic strategies as they have risen up the cohesion policy agenda. In contrast, domestic regional development agendas in older member states have tended to influence SF programmes rather than *vice versa*. The relative financial strength of domestic regional development initiatives compared to EU funds available and their strategic content means that EU funds have been seen as a means to strengthen or emphasise certain aspects of the domestic agenda. In other words, absorption

has taken place (Ferry 2007). In CEE, the scale of cohesion policy funding in comparison to non-EU funded regional initiatives means that they have been able to set the regional development agenda to a significant degree. However, this does not amount to transformation or a wholesale transfer of EU policy objectives. Cohesion policy aims are interpreted and modified according to domestic interpretations of these objectives in the process of downloading to national contexts. Additionally, many domestic regional policy objectives retain distinctive characteristics and elements, reflecting the particular territorial development challenges faced. Thus it is arguable that processes of accommodation are evident.

A similar conclusion can be drawn in terms of spatial targeting. EU policy exercises fixed constraints on which geographic areas can receive regional aid and introduced new ways of thinking about targeting regional policy in the CEE member states. However, CEE countries are largely covered by the convergence category and decisions are less constrained by questions of spatial eligibility than elsewhere in the EU. Moreover, ambiguities in the territorial focus of cohesion policy in CEE mean that the influence of domestic regional policy priorities on the territorial allocation of cohesion policy funds is strong. This is reflected in significant variation in the spatial focus of cohesion policy among CEE member states and again suggests a process of accommodation.

The connection between cohesion policy and domestic regional policy is especially apparent in the evolution of policy instruments. The bulk of regional policy in the CEE member states is now EU co-financed, and therefore, is delivered and regulated through cohesion policy programmes. Truly independent national regional policy instruments are very rarely pursued. The application of more integrated investments focussing on competitiveness and innovation also strongly reflects contemporary EU policy approaches. As part of this trend, more integrated regional and local planning has developed, in line with the EU's approach to policy programming. Under this policy heading, therefore, it is arguable that processes of transformation have occurred.

The influence of cohesion policy is most variable in its impact on policy governance. Differing institutional responses are attributed to different degrees of institutional fit between domestic systems and EU requirements, and levels of political commitment (EPRC 2009, p. 104). Trajectories have diverged and an increasingly differentiated picture has emerged. Sub-national levels have become more embedded in the process of regional policy management and implementation, along the lines of the multi-level model of governance espoused in theory by the European Commission. In this sense, processes of Europeanisation have intensified. However, this has only occurred in a limited number of cases, notably where pre-accession administrative reforms included the establishment of self-governing intermediate units.

In line with the Europeanisation literature (Börzel 1999; Bache 1998), this analysis identifies numerous ways in which the EU, and specifically cohesion policy, have had a substantial impact on domestic regional policies. For some dimensions of regional policy, the influence of EU approaches in CEE is particularly strong, driving rather than attempting to adjust the domestic regional development agendas. As a result, some aspects of CEE regional policies that have emerged over the past 10–15 years mirror closely those of cohesion policy. The influences exerted on the various aspects of policy in many cases stem from direct obligations to fulfil or abide by EU regulations, such as state aid guidelines on the spatial targeting of regional development support measures, the use of NUTS

nomenclature and the requirement for domestic co-financing. Policy learning, voluntary policy transfer and adaptation are also apparent: the adoption of long-term strategic objectives with time-spans that coincide with cohesion policy programming periods is a case in point. However, as this discussion demonstrates, the various elements of policy have been affected in different ways and to different extents by cohesion policy. Even in cases where Europeanisation appears strong, aspects of domestic regional policy are retained and promoted. In other cases, domestic preferences and policy legacies have had a key role in shaping contemporary policy approaches, as opposed to them simply being overtaken by cohesion policy. Established commitment to specific objectives or territories has been retained. Inherited patterns of centralised policy making or sectoral approaches, as opposed to integrated regional development policies, persist. Thus, pre-existing trends are still exerting an influence on the direction and course of domestic regional policy, and in some contexts, cohesion policy directions.

Looking forward, regional policy in the CEE member states could be entering a new phase. In the short-term at least, cohesion policy is likely to remain the main sponsor of economic development in these countries. Nevertheless, it is also possible that questions concerning the interaction between domestic and EU regional policy will become increasingly pertinent. On the one hand, plans for cohesion policy after 2013 indicate stronger thematic concentration than in the current period, with a focus on innovation, SME competitiveness, renewable energy and technology. In some CEE member states where issues such as basic infrastructure development are still pressing, this is motivating an assessment of domestic regional policy objectives and an exploration of how these fit with this new cohesion policy agenda. One of the most important trends over the past one or two years is the emergence, in parts of Central and Eastern Europe, of new national regional policies that are distinct from cohesion policy. Having gained experience with cohesion policy, several CEE EU member states are developing or debating new domestic regional policy frameworks to determine or guide broader, national approaches to regional development. Given this, the efficient coordination of domestic and EU inputs into different dimensions of CEE regional policy will become increasingly important.

Finally, the research in this paper reinforces some of the fundamental questions that have been posed about the broader theoretical value of Europeanisation studies. The analytical framework has examined the rationale and processes of policy change at different levels of regional policy. This has charted an ongoing process of divergence in the trajectories of different regional policy components in CEE as domestic contexts reassert themselves following the immediate post-accession period. This emphasises the need to develop more fine grained analyses of policy change and expand comparative policy studies of Europeanisation across the traditional old and new member state divide.

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