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The influence of the local context on the implementation and impact of EU Cohesion Policy

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Abstract

Most literature on the impact of Cohesion Policy analysed it as if it were an homogeneous body, implemented in the same way across European (EU) areas. This applies in particular for those studies adopting a macro-approach and aimed at detecting the aggregate impact of Structural Funds on (EU) regions.

If it certainly true that the principles of Cohesion Policy are the same everywhere, the way in which Communitarian policies are implemented, and their effectiveness, can amply change due to the context of implementation, as shown by some recent papers (Rodrìguez-Pose and Garcilazo, 2015). This context can be defined by specific institutional characteristics (Crescenzi et al., 2016), but also by the set of territorial assets EU regions are endowed with (Fratesi and Perucca, 2014).

Moreover, an additional issue arising when studying the impact of Cohesion Policy refers to the fact that the actions undertaken within this Communitarian program range across very different fields, from the support of firms to the provision of transport infrastructure, from the fight against social exclusion to interventions for the environment. This distinction is relevant since policies implemented in different fields are assumed to have a different impact on economic growth (Fratesi and Perucca, 2016).

Stemming from these considerations, the aim of the present paper is to show that, keeping constant the kind of policy and the characteristics of the beneficiaries, the interaction between the policy and the territory makes the former differently effective.

To show this, the paper merges three databases: a comprehensive database of EU projects and structural funds beneficiaries in selected EU countries for the programming period 2007-13, a database of firm-level information for the period 2005-15 and a database of territorial assets and characteristics for all European regions.

The focus on the programming period 2007-13 is particularly interesting for two reasons. First, since for the first time also Central and Eastern European (CEE) countries benefited of

Communitarian support for the whole period. Second, because some recent works (Bachtrögler, 2016) warned about the deterioration in the effectiveness of convergence funds during this period.

Compared with previous literature, the focus of the paper is not on regions but, rather, on the firms who benefited from EU support in the Cohesion Policy program. Our assumption is that the territorial characteristics of the EU NUTS2 regions where these firms are located mediated the impact of the Communitarian funding. In other words, being a beneficiary of EU support is not expected to constitute, *per se*, a determinant of a better economic performance at the firm level. Rather, this holds true only when Communitarian support is matched with some specific territorial characteristics, fostering the impact of the private investments.

Many studies focused on the relationship between firms' performance and the characteristics of the regional environment where they operate (Ricotta, 2016). Very scarce evidence, however, is available when considering investments and projects undertaken within the Cohesion Policy program.

The structure of the present paper is therefore divided into two main steps. The first one is devoted to the assessment of the productivity of EU firms operating in different manufacturing sectors. The statistical tool adopted in this part is the Total Factor Productivity (TFP) technique, largely adopted in the literature (Gal, 2013), also in relationship with EU policies. The second part of the study is devoted to the analysis of the differences in the productivity scores of treated (i.e. supported by EU funding) and untreated (i.e. not supported) firms. As discussed above, our idea is that most of the differences observed between the two groups of firms can be explained by the territorial setting in which they operate. More in details, we expect the public territorial assets of both material (like the transportation infrastructures) and intangible (like the quality of institutions) to play a major role in fostering the impact of Cohesion Policy actions on the performance of treated firms.

The findings of this study convey relevant implications for the design of future EU policies. By pointing out that the impact of Communitarian actions is not neutral to the territorial characteristics of regions, they suggest that future strategies should take into account this element in the processes of allocation of funds across different fields.

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