The Economic Return of Cohesion Expenditure for Member States

Abstract

This study provides an analysis of the economic returns of structural and cohesion policy expenditure (ERDF and Cohesion Fund) to net contributors to the EU budget, (“donor” member states). The analysis shows that the economic benefits for the recipient countries are positive both during the implementation phase and in the long-run. Although the donor member states gain from expanded trade, this is not sufficient in all cases fully to compensate them for the negative economic effects that arise from the extra cost to finance the cohesion expenditure programmes in the recipient states by means of higher taxes in the donor states. However, negative impacts, where they arise, are small.
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EXECUTIVE SUMMARY

Background

In this report we analyse the manner in which the EU cohesion expenditure activities that were implemented during the budget programming period 2000-2006 are likely to have affected donor member states. The group of countries that we refer to as “donor” states are the eleven member states that have made net contributions to the EU budget (i.e., net in the sense that they are adjusted for receipts under the Common Agriculture Policy). In descending order of the size of their net contribution measured in euro, these are: Germany, France, the Netherlands, Italy, Great Britain, Sweden, Belgium, Austria, Denmark, Luxemburg and Finland.

The group of countries that we refer to as “recipient” states are all those designated as Objective 1 during the programming period 2000-2006, and include fourteen states in total: Cyprus, the Czech Republic, Estonia, Greece, Spain, Hungary, Ireland, Lithuania, Latvia, Malta, Poland, Portugal, Slovenia and Slovakia.

Our analysis of how the donor states are likely to be affected by cohesion expenditure was required to address six major themes (or questions), designated as follows:

**Theme 1**: How much of economic growth in donor states can be attributed to cohesion expenditure interventions in recipient states?

**Theme 2**: How do cohesion expenditure interventions influence the economic aggregates and the structure of the recipient economies? In particular, what part of the cohesion expenditure grants will be transformed into demand and production?

**Theme 3**: How big a share of cohesion expenditure interventions will leak to more prosperous regions via increased demand for imports from these regions? How are imports from donor states likely to evolve compared with the situation without structural funding.

**Theme 4**: What is the percentage of contractors from donor member states that have been awarded major public procurement contracts funded partly by cohesion expenditure?

**Theme 5**: How many jobs in donor member states depend upon cohesion expenditure financial transfers?

**Theme 6**: What is the effect of cohesion expenditure transfers upon cash flows?

Our report addresses these themes in a different order to that set out above because we need to sequence our research in a way that reflects the manner in which the underlying economic processes actually operate. Thus, in the first step of our analysis we start with the actual data on the budget contributions made by the donor states, and how an element of the total EU budget is devoted to supporting investment and other economic activities in the recipient states by means of cohesion expenditure. These facts will be well known to Members of the European Parliament, but are summarised since the data serves as quantitative inputs into subsequent analysis.
In our next step, we need to examine how cohesion expenditure programmes are implemented in the recipient states, and how they are likely to affect the economic performance of these states. In particular, we need to identify the spillover effects that create potentially beneficial impacts on the economies of the donor states. This stage of our research is designed to address Themes 2 and 3 above, i.e., the matters pertaining to the impacts on the recipient states.

Only when we have examined the direct impacts on the recipient states can we proceed to study the donor states, and trace through the spillovers from the recipients to the donors. At the very start of the process, the donor states have to bear the burden of making a net contribution to the EU budget. Any subsequent spillovers arising from the implementation of the cohesion expenditure programmes may offset some of the negative cost to donors of financing the budget. The overall net impact on the donors could, potentially, be either negative or positive. This stage of our research is designed to address Themes 1, 5 and 6 above, i.e., matters pertaining to the donor state impacts.

Finally, we are left with Theme 4, which is of different character to the other five macro themes. Our research uses two distinct levels of analysis methodology. At the macroeconomic level, the analysis relates to aggregate benefits obtained by the recipient and donor states, measured in terms of impacts on macroeconomic variables such as GDP, employment, etc. This embraces Themes 1-3, plus Themes 5-6. At the microeconomic level, the analysis relates to benefits obtained by individual firms within donor states arising from the implementation of selected types of interventions and projects within cohesion expenditure programmes. This calls for the identification of firms and consortia from donor states who were awarded major public procurement contracts funded partly by the cohesion expenditure programmes.

A final point needs to be made, before we present a summary of our main findings. This concerns the modelling methodology that we have used to address the five “macro” themes. Models are required for the analysis because it is impossible to explain the impacts of cohesion expenditure policies merely from observing the outcome in terms of growth of GDP, numbers employed, etc. For the years 2000-2008, we effectively know what the level and growth rate of GDP was in all the recipient and donor states. But we have no way of knowing what portion of growth performance was caused by cohesion expenditure programmes. Many other external and internal factors were also changing during the period 2000-2008, and will continue to change in the future, and we cannot identify the specific role of cohesion expenditure merely by looking at raw data. For this task, we have to use formal models of the economies of the recipient and donor states. The model framework that we adopt is HERMIN, which has been used in the area of cohesion analysis since the late 1980s. The reader is referred to Chapter 3 of our report, where we explain our modelling methodology in detail, the short account given in Annex 1, and to the relevant references to academic and other publications contained in the bibliography.

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1 Official national accounting data are available up to the year 2007 for all states, from national and EUROSTAT sources. Good estimates of many indicators of economic performance during 2008 are also available.

2 See Bradley, 2006 for a review of past use of HERMIN for analysis of cohesion expenditure impacts. Bradley and Untiedt, 2008 provides a complete User Manual of the HERMIN system of models of the recipient states. The models of the donor states are new, and details are available on request (Bradley and Untiedt, 2009).
The funding support

The net budget contributions made by the donor states vary in size. Rather than looking at the absolute amounts expressed in euro, it is more useful to look at the donor contributions expressed as a percentage of donor GNP. It is also useful to look at the receipts under cohesion programmes in terms of their size as a percentage of the GNP of the recipient states. A comparison between the net donor states and the net recipient states points to an asymmetry when the shares (received or paid) are expressed as a percentage of national GNP. The shares for the net donor states tend to be of modest size, and range between a high of 0.7 per cent of GNP for Luxembourg in the year 2002, to a low of less than 0.1 per cent of GNP for Denmark in the year 2002. On average, they tend to be much less than about 0.5 per cent of GNP per year. In the cases of Denmark, Finland, Italy and the United Kingdom, these “donor” states are actually “recipient” states for selected years towards the start of the programming period.

The shares for the net recipient states are more significant than the donor shares in terms of their size relative to GNP, and can range up to 4 per cent per year. Main recipient states from the EU budget during the cohesion expenditure programme 2000-2006 were Spain, Greece, Portugal and Ireland. Since the EU enlargements of 2004 and 2007, all new member states are also net recipients. However, their shares of cohesion expenditure tended to be small in the early years after accession, and built up rapidly as the programmes and procedures got under way. Expressed in absolute terms, the cohesion expenditure for the EU-15 amounted to around €231 billion for the programming period 2000-2006. Net recipient countries of the EU budget have received just over 50 per cent of this total, the rest being devoted to net donor states within the EU-15. The ten new member states joining in 2004 received 21.3 billion euro for the programming period 2004–2006.

Although each cohesion expenditure programme is a complex plan consisting of hundreds of individual projects and measures, grouped under a small number of Operational Programmes, we need to reclassify these for analysis using the models into three main economic investment categories: public infrastructure; human resources; and aid to private enterprises. The average shares of each economic category during the 2000-2006 programme, across all of the recipient countries, were 48.5, 35.9 and 15.6 per cent of the total, respectively.

For the programming period 2007-2013, the cohesion expenditure budget has been enlarged to €341.1 billion, of which about three quarters is devoted to net recipient countries (expanded now to include Bulgaria and Romania).

Impacts on recipient states

The second step of our analysis requires us to use the data on cohesion expenditure in order to quantify the impact of the cohesion programmes on the recipient states for the period 2000-2006, identifying the effects of boosting output (GDP) and the effects on stimulating the demand for imports. These impacts need to be known before we can examine the subsequent demand-side spillovers on the donor states. In our analysis we make a clear distinction between the demand-side impacts of cohesion expenditure during programme implementation, and the longer-lasting supply-side impacts that continue after the programmes are terminated. While the programmes are being implemented, they boost output and employment, particularly in the large-scale
construction schemes that make up a high proportion of total cohesion expenditure in most recipient states.

On the basis of the model analysis, the large implementational impacts are due to the Keynesian multiplier effects of the expenditures. These demand-side impacts quickly revert to zero after the programmes are completed (i.e., after 2008 in the case of the 2000-2006 programming period). However, as the improved stocks of physical infrastructure, human capital and R&D build up gradually, the supply-side benefits begin to come through in terms of higher sectoral production and higher productivity.

In Chapter 4 we report on the impacts of cohesion expenditure in each of the fourteen recipient states. With respect to the question raised in Theme 2 (i.e., how does the supply-demand split work through the recipient states?), the HERMIN simulations showed that the enduring impacts, after the termination of the programmes, were higher output in manufacturing and market services as well as higher productivity. The infrastructural investment programmes are carried out by the building sector, but the sustained boost to activity in this sector quickly vanishes once the programmes terminate. The agriculture sector and the government sector remain largely unchanged, except for state-led training schemes and institutions associated with the ESF part of the programmes.

The impacts for all the recipient states were presented in Figure 7 in Chapter 4, which consists of fourteen sets of four graphs per country, displaying the following results:

- EC-funded cohesion expenditure (expressed as a per cent of GDP)
- Cohesion expenditure impacts on GDP (expressed as a percentage increase relative to no-expenditure baseline)
- Cohesion expenditure impacts on employment (expressed as a percentage increase relative to no-expenditure baseline)
- Cohesion expenditure impacts on net trade balance (expressed as a percentage of GDP, difference from no-expenditure baseline)

Taking Estonia as an illustrative example, Figure 7, Panel (a), shows that the injection of EC-funded cohesion expenditure into the Estonian economy was 0.57 per cent of GDP in the start-up year, 2004, and rose gradually to 1.11 per cent of GDP by the final years. Panel (b) gives the impact of the cohesion expenditure on GDP, based on the HERMIN model simulation. In the initial year, the impact was only 0.6 per cent, i.e., the level of GDP was increased by 0.65 per cent above the baseline (no-policy) case. As the programme was progressively implemented, the impact on GDP increased, and peaked at 2.58 per cent in the final year, 2008. At that stage all cohesion expenditure is assumed to cease (remember, we are analysing the 2000-2006 programme in isolation from any other). With the cessation of funding, there is a sudden reduction in the boost to the level of GDP. But, due to supply-side spillovers, there are enduring benefits to GDP, albeit of smaller size. By the year 2015, i.e., seven years after the 2000-2006 programme expenditures were terminated, the boost to the level of GDP is still about 0.77 per cent.

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3 The demand-side implementation impacts of cohesion expenditure resembles the aims of recent efforts to stimulate economies caught in the global downturn. However, it is the longer term, supply-side impacts of cohesion programmes that is at the core of EU activity.
Panel (c) gives the impacts on total employment, and these are seen to follow the same profile as the impacts on GDP, but are about half the magnitude.

The best summary of how production in the recipient states will be affected by cohesion expenditure programmes is provided by the so-called “cumulative” multiplier. This is calculated for any specific year by accumulating all previous increases in GDP that were attributable to the cohesion expenditure, and dividing them by the magnitude of the accumulated cohesion expenditure (expressed as a share of GDP). During the programme implementation years, the boost to GDP is attributable to the cohesion expenditure injections. But after the programme terminates, on December 31st, 2008, there are continued supply-side benefits in terms of increased GDP, but no further injection of funds.

We display the cumulative multipliers in summary form for all fourteen recipient states, for the year 2020 in Figure 1 below. We can divide these results into three groups, based on a ranking by the size of the cumulative multipliers:

**High values (above 3.0):** IE (4.0), ES (3.3), CZ (3.3) and MT (3.1)

**Medium values (2.5 to 3.0):** SK (2.8), EL (2.8), EE (2.8), PT (2.6), PL (2.5)

**Low values (below 2.5):** LT (2.4), HU (2.4), SI (2.2), CY (2.2), LV (1.9)

**Figure 1: Cumulative multipliers for recipient states: 2020**
*(Cohesion expenditure programme 2000-2006)*

Based on common assumptions for the size of the spillover mechanisms, this suggests that some recipient states are more effective in translating the cohesion expenditures into increased output than others. Those states with the highest multipliers are the most effective. As the multiplier declines, less of the cohesion expenditure ends up as increased production, and appears either as a demand-side stimulus during the implementation period that terminates after 2008, and as increased

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4 The year 2020 is the terminal year for the simulations. It permits us to capture the very long-tailed influences of cohesion expenditure.
demand for imports. However, our analysis suggests that in all cases an injection of one per cent of GDP in the form of cohesion expenditure will generate a return of at least two per cent of GDP in the long run, mainly as a result of the supply-side spillovers into production and productivity.

A final point to make with respect to the quantification of cohesion expenditure impacts is that the appropriate magnitude of the crucial spillover parameters (i.e., the size of the beneficial spillovers associated with improved stocks of physical infrastructure, human capital and R&D) are not known with any degree of precision. Our selected values are representative of the average values found in the international literature that is seldom based on research carried out in the recipient states. There is no such research available yet in the new member states. Indeed, the HERMIN models are often among the first such models of some of the new member states that are suitable for use in deep, structural policy analysis and medium-term projections. As a result, we have to look at the sensitivity of our results to variations in the sizes of the parameters. Such analysis shows the obvious: namely, the higher the spillovers, the larger the supply-side impacts on the recipient states.

Turning to the question raised in Theme 3 (i.e., How does the boost to imports leak out to stimulate exports in the donor states?), the simulations carried out with the HERMIN models showed that in every case, the net trade balance deteriorated as the cohesion expenditure programmes were implemented. However, we stressed that this should not be interpreted as being the result of a consumer boost, induced by cohesion expenditure. Actual cohesion expenditure programmes involve investment projects that generate increased demands for producer capital goods (initially), and consumer goods, after the wages are spent by workers.

The HERMIN simulations pick up the deterioration in the recipient country trade balance during implementation, when the funds help pay for the imports, and the resulting completed investment activities leave a long-enduring benefit in terms of more, and higher quality, roads and more productive, trained labour. After the programmes are terminated, the net trade balance in the recipient economies moves back into a surplus, when compared to the “no-funding” case. It is important to stress that even in the post-programme period, most of the recipient economies will continue to run sizeable net trade deficits for some time to come. But the HERMIN simulations suggest that the improvements in the supply sides of manufacturing and market services are likely to sustain a higher rate of import demand from the larger, more developed donor states. In view of the rapid trade integration within the Single European Market, much of this future trade will be in producer goods, and intermediate products, and not just in final or consumer goods.

At present, this phenomenon shows up in the HERMIN simulations in the form of a sustained higher demand for donor country exports, since the recipient states have considerable trade exposure to the donor states. Of course, as the recipient states develop, they will also be able to compete more effectively with the donor states. The HERMIN simulations suggest that this looks like becoming a mildly “positive-sum game”, where donor states and recipient states continue to gain. And as convergence takes place, at least at the national level, the balance between “net” donors and “net beneficiaries” will become more even.

We can illustrate this process using Estonia again as an example. From Figure 7, Panel (d) for Estonia, we see that the trade balance deteriorated by almost 0.8 percentage points
(where the trade balance is expressed as a percentage of GDP). This deterioration continued and increased, reaching 1.2 per cent of GDP by the year 2007, and remaining high at 1 per cent of GDP in 2008. Immediately after the termination of the 2000-2006 programme at the end of 2008, the trade balance deterioration caused by the cohesion expenditure vanishes, and the improved supply potential of the economy means that there is a modest improvement in the trade balance of about 0.4 per cent of GDP in the post programme period.

The impacts on the net trade balances were shown for all fourteen recipient states in the graphs contained in Figure 7 of Chapter 4. In every case the trade balance deteriorates during the implementation phase (2000-2008), as the actual investments are being put in place and the capital and other goods and services are being imported in cases where they are not produced locally. Of course, this increased demand for imports by the recipient states can be potentially satisfied by any country in the world, and not just by increased exports from the eleven donor states. How much actually comes from exports of donor states is determined by the existing trade exposure of the recipient states to the donor states, and this is summarised in Figure 2, reproduced from Chapter 3.

Figure 2: Percentage of total exports of donor states going to recipient states (2007)

Consequently, those donor states which have a high trade exposure to the beneficiary states (Germany, France and Italy, in particular) will be the likely beneficiaries of the increased demand for imports emanating from the recipient states. Of course, trade is a two-way process. As the recipient state economies begin to benefit from the supply-side improvements associated with cohesion expenditure, they, in turn, are likely to export more to the donor states. Indeed, we showed in Chapter 3 that the donor states made up a much higher share of the export markets for the recipient states than the recipient states did for the donor states. Consequently, it is the net impact on recipient and donor state trade that matters. Our analysis showed that all the recipient states run trade deficits (relative to the no cohesion expenditure case) during programme implementation, and that this switches to a net trade surplus (once again, relative to the no cohesion expenditure case).
We can summarise as follows. **It is mainly during the implementation period of the 2000-2006 programme that the cohesion expenditures serve to boost the demand for imports by the recipient states. As the funds are absorbed, demand in the recipient economy outstrips supply, and this appears as a deterioration of the balance of trade. Demand tends to react immediately, which it takes some time for the supply-side enhancing processes to work through, as the economy restructures. The main element of this restructuring takes the form of increased capacity in manufacturing and market services, and higher productivity. The summary magnitudes for each recipient state were presented in Figure 7.**

After the cohesion expenditures terminate at the end of 2008, the demand-side stimulus vanishes and only the longer-term supply side enhancement remains. These are the result of spillover benefits from the improved stocks of physical infrastructure, human resources and R&D that were funded during 2000-2008 by the flow of cohesion expenditures. Although these “stocks” depreciate slowly over time, their spillover benefits are long-lasting, if modest.

Our analysis refers to the impacts of the programming period 2000-2006, which continues to the end of 2008 under the so-called “n+2” rule. The current programming period 2007-2013 started up in January, 2007, and overlapped the last two (“n+2”) years of the previous programming period. Cohesion expenditures under this current programme usually take up where the previous projects left off. In Annex 2 of our report we present a summary of our analysis of the impacts of the two programming periods, 2000-2006 and 2007-2013, regarded essentially as a single cohesion expenditure programme that will run from 2000 to 2015. The pattern of impacts are very similar to those of the 2000-2006 programme. But the current programme is directed very specifically at the new member states, whose trade orientation towards donor states tends to be different from that of the old recipient states (Greece, Ireland, Portugal and Spain).

**Spillover impacts on donor states**

**With respect to Theme 1 What are the impacts on donor state GDP from cohesion expenditure spillovers?** we stress that any such impacts will be transitory, at best. We have shown that there is a medium-term impact on the level of activity of the recipient states (i.e., GDP, employment, productivity, etc.), but no long-term impact on the growth rate of the recipient states. Consequently, any spillovers from recipient states will also produce medium-term level rather than growth impacts on the donor states.

Our HERMIN-based simulations suggest that in the implementation years of the cohesion expenditure programmes, there are positive impacts of trade-boosting spillovers from recipient states to donor states. However, these are more than off-set by the negative impact on the donor economies of having to finance the budget contribution by raising taxes. In our simulations we financed the EU budget contribution in the donor states by raising a tax rate. We could also have reduced public expenditure in the donor state by just enough to fund the budget contribution. The negative economic impacts on the donor economy are broadly similar in both cases.

**All the impacts on the donor states are presented in Chapter 5, Figure 14, where we can see exactly how GDP and employment in the donor states are affected.**
is clear that some donor states benefit from the indirect spillovers more than others. For example, France, the United Kingdom and Italy suffered no significant negative growth or employment impacts over the 2000-2006 cohesion expenditure programme, either during implementation (when they had to make net budget contributions) or after implementation (when we assume that the budget contribution is terminated).

The Netherlands and Luxembourg, on the other hand, experienced negative impacts on GDP and employment during the period 2000 to 2008, when they are assumed to be making net contributions to the EU budget. This was due to a mixture of the size of the budget contribution, the structure of these two economies, and the trade orientation to the main recipient states in Eastern and Southern Europe. But even in the case of the Netherlands, where the negative impact on GDP was largest, the level of GDP was only reduced at most by about 0.8 of one percentage point. The other donor state impacts lie between the extremes of France, on the one hand, and the Netherlands on the other.

Turning to the question raised in Theme 5 How many jobs in donor states depend on cohesion expenditure programmes?, we stress in Chapter 5 that the question of job dependency in donor states and its association with cohesion expenditure programmes, has to be addressed with care. One must make the distinction between total employment numbers in the donor state economy, or in certain sectors of the economy, and specific employment in work that is associated with sectors which are involved in trade with the recipient states. Thus, even in the case of the Netherlands, where the overall impact on total employment was seen to be negative (see Figure 14, Panel (d)), there are still likely to be specific jobs that are dependent on the cohesion expenditure spillovers into the Netherlands. Nevertheless, the overall impact is negative. Even in the case of France, where the overall impact of the cohesion expenditure spillovers and the budget financing requirement on total numbers employed was positive, there are possibly some jobs that are threatened by trade with the recipient states, and some jobs that are negatively affected by the need to raise the rate of personal income tax in order to fund the EU budget contribution.

The results bearing on the final macro question raised in Theme 6 What is the effect of cohesion expenditure transfers upon cash flows? are interpreted in terms of three measures: the net trade balance; public sector financial balances; and profits in the corporate sector. The results of the impacts on all these measures are presented in Figure 20 in Chapter 5. Using Germany as a typical example, the impact of cohesion expenditures (i.e., the net impact of financing the budget contribution and the impact of trade spillovers from the recipient states) on the German net trade balance is uniformly positive, but it is only boosted by a maximum of 0.2 percent of GDP (in 2004). The impacts on the public finances are also small, and show that the government borrowing requirement, expressed as a percentage of GDP, increased slightly for the years 2000 to 2008, and fell slightly thereafter (both relative to the no-policy baseline). The biggest increase was recorded in the year 2003, but was only 0.1 percentage points. Finally, corporate profits fell slightly during 2000-2008, and improved thereafter. Given the small size of these effects, it is difficult to draw any firm and robust conclusions with respect to theme 6, other than to state that the impacts on cash flows are very minor, and probably well within any margin of error surrounding the structure and operation of the HERMIN models. Similar conclusions apply to all the other ten donor states.
We conclude that in the cases of nine of the donor states (i.e., excluding France and the United Kingdom), the cost of supporting cohesion expenditure programmes in the recipient states represents a small burden in terms of loss of GDP and employment, a slightly higher public sector borrowing requirement and lower corporate profits during the implementation years 2000-2008, but a slightly improved balance of trade. In the exceptional cases of France and the United Kingdom, these impacts are mainly positive, even during the implementation period. In the post-implementation years, 2008 onwards, these impacts all turn positive, but are of small magnitude. So there are redistributional effects associated with the support of cohesion expenditure programmes. This process does lead to a modest transfer of resources from the donor states to the recipient states.

The micro impact question

Theme 4 asks the question: What share of major public procurement contracts were awarded to enterprises from donor states? To answer it requires access to data concerning on individual contractors and their country of origin. After extensive investigations at the level of the Commission, at the national and even at the regional level, in donor and recipient states, we finally had to conclude that that data on individual contractors are not recorded or published. One reason for lack of data is that the individual contractors are not regarded as beneficiaries of the EU cohesion expenditure, and that all contracts are awarded by many different levels of national and local administrations. Improvements in data collection in the current programming period, 2007-2013, have only partially addressed this lack of data. It proved impossible, within the time and budget constraints of the contract, to set up a separate survey to gather these data.

But even knowing the nationality of main contractors would give very little information on the likely financial benefits to that contractor or to the country of origin. Analysis of all the sub-contracting activities needs to be taken into account, where many of them are likely to come from the recipient state where the project is being implemented. This unsatisfactory situation needs to be addressed by more systematic data collection at the project level, both as part of project cost-benefit analysis, and to identify the firms who ultimately benefit from projects funded by cohesion expenditure.

Recommendations

Our recommendations relate to various stages of the analysis, starting with the general lack of assessment of the impacts of cohesion expenditure at the project or microeconomic level. Macro evaluations depend crucially on access to information concerning the detail of how the cohesion policy programmes are planned and implemented, and on knowledge of the quality of a range of representative projects from each of the three economic categories of investment. The danger is that poorly designed programmes, and inadequate project selection criteria will result in programme macro impacts that are largely confined to the implementation period, and have low (or no) longer term supply-side benefits. We strongly recommend that such analysis be made a formal part of future programme application and implementation procedures, carried out along formalised guidelines set down by the Commission.
A closely related recommendation concerns the requirement to be able to identify the individual contractors that are selected to carry out major public procurement projects, mainly in the areas of physical infrastructure and major training schemes. Our failure to answer the question set out in Theme 4 was due to the total lack of any such data in the public domain. We recommend that the Managing Authorities in all the recipient states be required to document the main contractors selected to carry out any major public procurement project with their country of origin, and to require that these main contractors identify and declare the share of the project budget that is devoted to sub-contractors, whose national identity should also be recorded. Only in this way would we be able to begin to gauge how the benefits of the associated cohesion expenditure was actually distributed across donor and recipient member states for major public procurement projects. Taken together, the above two recommendations would greatly expand the knowledge base available to the Committee as it exercises oversight on cohesion expenditure programmes.

Our next recommendation relates to the manner in which the different cohesion expenditure programmes have been analysed in isolation from each other in the past. In our report, we were requested to carry out, essentially, an ex-post impact analysis of programme 2000-2006, whose implementation period covered the years 2000-2008. This is a very unsatisfactory and unscientific approach, driven by administrative requirements to account formally for allocated budgets in each separate programming period. In fact, the various rounds of cohesion expenditure are not isolated from each other in practice, but represent an unfolding sequence of closely inter-related investment projects, many of which span multiple programming periods. We recommend that all future impact studies, give close attention to the continuity between past and present cohesion expenditure programmes. An example of why this is important was the case where we examined the back-to-back consequences of the programming periods 2000-2006 and 2007-2013 in terms of spillover benefits for Germany. Taken in isolation, there were found to be negative impacts of programme 2000-2006 on Germany during the implementation years 2000-2008, and the impacts only turned positive in the post-implementation period. If we had analysed the impacts of the programme period 2007-2013 in isolation, a similar result would have been found. However, when we ran both programmes back-to-back, the impacts remained positive for Germany, even during the implementation phase of programme 2007-2013 (i.e., the years 2009-2015) when budget contributions were being made.

Finally, we make a wider recommendation based on the fact that the spillover impacts of cohesion expenditure on donor states are so small that there is a risk that such programmes might be regarded as unimportant for donor states. It would be more logical to study the impacts of cohesion expenditure within the wider context of the progressive deepening of the Single European Market and the prospects of the adoption of the euro by the new member states, probably during the current programming period. When one asks the question: “what are the impacts of the cohesion expenditures, in isolation from any other changes?” the impacts turn out to be relatively small. But, isolated study of cohesion expenditure programmes runs the risk of missing the wider benefits that stem from boosting the competitive performance of the recipient states. In particular, it may lead to neglect of the opportunities that open up for closer, mutually beneficial links between recipient and donor states in the form of internationally mobile investment, specialist sub-supply, migration of workers with specific expertise and experience, in addition to the more direct impacts in terms of increased import demand that we have examined in this report.