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It is a very generally accepted view that financial support received from the European Union generates a large growth surplus. The potential effects of the structural funds calculated in model simulations carried out by the European Commission support these positive expectations. However empirical studies of the real effects of the funds are few and far between measuring the growth surpluses attributed to the process of catching up with richer EU economies. The aim of the present paper is to remedy this contradiction by introducing the general philosophy and methods of the examination of the regional policy of the European Union.

Key words: European Union, regional policy, evaluation methods

JEL classification codes: F02, F15, R10, R11, R19, R50, R58

One of the major aims of the regional policy[304] of the European Union is to help reduce the existing income gap between the richer and poorer regions (in other words to reduce the economic and territorial disparities). The other major objective of this policy is to reinforce employment and to deal with the problem of social exclusion (i.e. to reduce social disparities). In order to achieve these aims the Union spends significant sums on programmes designed to realise these objectives.
An examination of the almost twenty year experience of this policy at community level leads us to ask to what extent the objectives have been reached, and how effectively and appropriately European taxpayers' money has been spent. A well-founded answer to these types of questions can be given after an analysis of the policy, and the answers can help to formulate future policy.

The concept and development of evaluation in EU practice

Evaluation of regional policy is relatively recent in the history of the Union; at the beginning, (1975-1988) for various reasons305, appropriate systems of evaluation were not employed (Bachtler – Michie 1995). In 1988 however, when the European Commission received a large

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304 In this paper the regional policy of the EU, the cohesion policy of the EU, and the structural policy of the EU are used as synonymous conceptions, which refer to the working of the European Union Structural Funds and the Cohesion Fund. These are the main tools which the Union uses to help the economic and social cohesion of member states and regions. In the period examined in this paper – before 2006 – four structural funds were in operation: the European Regional Development Fund, the European Social Fund, the orientation section of the European Agriculture Guidance and Guarantee Fund, and the Financial Instrument for Fisheries Guidance. The Cohesion Fund provides financial support for larger programmes to develop environmental and transport infrastructure. The financial supports of the structural funds are provided on the basis of the regions laid down as the 'target areas' or 'Objectives', or within the framework of the so-called Community Initiatives. The Cohesion Fund can be applied for by the least developed member states, which before 2006 were Greece, Portugal, Spain and the new member states. For details of the new system which came into operation in 2007, see the following internet page: http://ec.europa.eu/regional_policy/policy/object/index_en.htm.
305 Bachtler and Michie (1995) list three reasons in their paper; (1) before 1988 community aid and money devoted to regional development in member states were mixed together, (2) the division of duties between administrative bodies was badly co-ordinated, and (3) the evaluation methods were very different throughout Europe, particularly in that they lacked community guidelines.

role in the distribution of Union funds, conflict between the Commission and member states became more intense. In this way the most important and longest established aim of evaluation was to ensure accountability (Batterbury 2006). From this time on, the Commission nominated the regions which were to receive financial aid, approved the development plans, and exercised oversight on development expenditure. The fact that these were the most significant items of the Union's budgetary expenditure further strengthened the demand for accountability306. As a result of these developments, the evaluation system, monitoring, financial management and auditing became stricter and more widely established in the EU, together with the attendant legal responsibilities. The situation is complicated even further by the fact that during the process of evaluation a large number of organisations must be included, from the programme managers and partners, through the regional and national authorities, right up to the various Union institutions, but in terms of the results achieved through Union expenditure and the achievement of the programme, *each organisation has different interests.* (Bachtler – Wren 2006)

Constructing an evaluation system for the programmes in the member states is not at all simple, since there is no monitoring regulatory system at the community level. The need for monitoring is evident in the Council regulations concerning the common budget, but nothing is said about how to create it in practice. For the 2007-2013 budgetary period the European Union only issued working papers and guidance documents to assist the evaluation process, and did not deal with the establishment of a regulatory system for programmes which affect the common budget[307].

In the EU the basic *aim* of evaluation (or monitoring) is not to provide an ex post analysis of the flow of funds, but "to provide support for the background examination of the execution of the development programmes" (Forman 2001:211). The *task* of monitoring, according to Rechniczer – Lados (2004:257) is "to account for the developments leading to regional development and the advancement of programmes, and in this way to their evaluation." Like Forman (2001) they also point out that monitoring is not simply a financial and administrative control, but much more: following the course of development programmes, continually evaluating them, providing feedback on the achievement of goals as well as an evaluating and systemizing the regional effects of development.

Although the terms 'evaluation' and 'monitoring' have distinct meanings, in international and Hungarian literature they are regularly used as synonyms. For the reader, the difference can perhaps be felt in the difference between the micro and the macro level, since evaluation refers to macro-, while monitoring to micro level evaluation. (Bradley 2006:190).

How do we evaluate? How can the existence of a policy be justified; how can we prove that the money spent in the framework of regional policy has been spent well? According to Molle (2006:2) two things must be measured. First, we must show that the policy has reached its objectives, in other words that it has been *effective*. Secondly, we must demonstrate that no money has been wasted, in other words that the policy has been *efficient*. The demonstration of effectiveness and efficiency help us in the process of evaluation.

The first step of every evaluation is that we must understand the logic of the intervention, which obviously implies understanding what we wish to achieve, and how we wish to achieve it (see EC 2001:5 and EC 2006:4). The key elements of the logic of intervention are inputs, project (or activities), outputs, results (short term or initial impacts) and outcomes (or longer term impacts). See Figure 1. Often a SWOT analysis is associated to this structure.[308]

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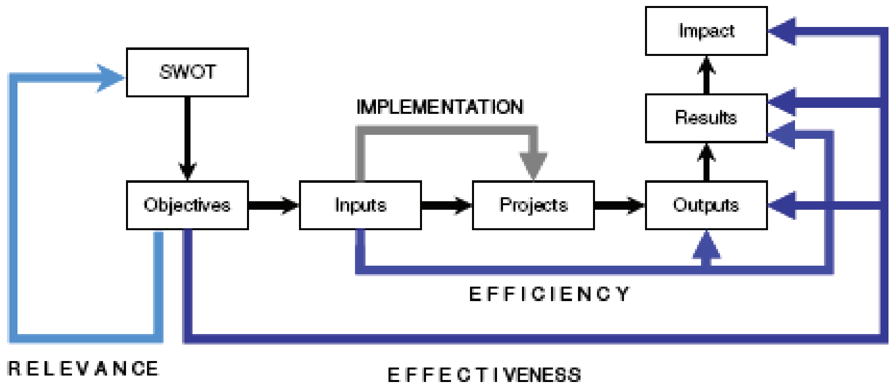
306 The increasing interest in the evaluation of the EU cohesion policy can be described as an international trend, driven worldwide by the demand for a legitimisation of and justification for governmental intervention. (Bachtler – Wren 2006).

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

308 We will return to this diagram in the last chapter.

Figure 1. The key elements examined during the evaluation of EU regional policy.



Source: Molle 2006:5.[309]

By completing the evaluation we are able to answer not only the research question's accountability criterium (referring to the appropriacy of the expenditure of tax payer's money); with the help of the evaluation we are also able to improve the results of a certain phase of the development policy, that is planning, programming and implementation – in other words we can improve performance (effectiveness and efficiency). Taking all this into consideration we can refer to this process as learning. (Molle 2006:2)

Types of Evaluation

The complexity of evaluation mentioned above (arising mainly from the divergent interests involved) is deepened by the fact that it can appear in many forms. The guidelines and working documents that act as regulations only create the framework, while the national and regional environment, the institutional system and the nature of the execution are all different. The culture of evaluation and the administrative capacity for such tasks also differs between member states. While there is a strong tradition of evaluating regional development in the northern European states, in southern states, such as Greece and Italy, the specialised evaluation has not yet become an integral part of the administrative system (Bachtler –Wren 2006:149).

Evaluation also differs from programme to programme. A programme can include many areas of intervention (its aims can be related to physical or economic infrastructure development, human resources, research, technological development and innovation environmental goals, support for small and medium-sized business etc.), and a selection of financial instruments can help its implementation, which can bring improvements for many beneficiaries. In addition to this the co-financing of the programmes stipulates state- or private capital contributions, which further complicates the picture.

Thanks to the great interest shown towards evaluation, the EU cohesion policy and its accompanying *methodology* have also moved to the centre of attention and have become *disputed* areas. This is not surprising considering the sums devoted to the policy[310] and the policy's role, but we must be aware that there are many different types of analyses and methodologies.

The origin of most disagreements concerning evaluations is that they are based on differing philosophical foundations. The modern practice of evaluation can be traced back to three philosophical traditions; positivism, constructivism and realism. *Positivism* is based on the idea that it is possible to obtain objective knowledge if we make observations (Tavistock Institute –

309 For the same diagram see EC 2001:9 or EC 2006:4.

310 On the basis of the financial plan referring to 2007-2013, the goals of the EU cohesion policy can make use of 35.7% of the full union budget, which translates to 347.41 billion Euros.

GHK – IRS, 2003:21). Separate individuals should, if they employ the same tools of observation and analyse their results with objective techniques, arrive at the same results. The positivist tradition searches for regularity and laws (just as in natural science) and the description of regularity arises from the aggregation of individual elements. However there are many limits to the pure form of positivism, for example it is difficult to observe reality, it is difficult to observe it totally and the observer is part of reality and can therefore change the environment etc.

The limits of positivism led to the formation of the so-called post-positivist schools. The most radical development, and the one which rejects most of positivism's assumptions, is *constructivism*, which rejects the existence of 'objective' knowledge. *Realism*, concentrates on the various interconnections, the elements, or the framework assumptions, in order to help the interpretation of explanations. This approach attempts to reveal the individual elements of the programmes and policy background mechanisms. (Armstrong – Wells 2006:263-266, Tavistock Institute – GHK – IRS, 2003:22)

Different *evaluation methods* are used for the different philosophical approaches. Positivism remains the dominant philosophical tradition in the analysis of the effects of the structural funds. This involves mainly top-down evaluations with the help of statistical techniques. Top-down analysis means the collection of aggregated macro-level secondary data (such as regional unemployment time series or industrial location cross-sectional data), which are analyzed with different statistical methods for example time series regression analysis or full econometric models, but input-output analysis and computable general equilibrium (CGE) models are also used (Armstrong – Wells 2006:264). Bottom-up approaches are used in the positivist model inasmuch as micro-level data are collected and an attempt is made to aggregate them and generalise them to the whole.

The realist approach tends to prepare studies based on large sample-size surveys of beneficiaries, similarly to postal or telephone questionnaires, or more in-depth and narrower-focused interviews. In other words this approach concentrates on particularities and on peculiarities, as opposed to the positivist approach which searches for generalisations, empirical regularities. (Armstrong – Wells 2006:265)

The content of the evaluation can change as the programme progresses, and can include evaluation before (ex-ante), during (mid-term) and after (ex-post) the programme. Different evaluation methods can be applied to individual *stages* or levels (see Table 1) A comprehensive description of individual evaluation methods can be found on the Union's evaluation homepage[311].

It can be seen from the table that micro (bottom-up) and macro (top-down) approaches can be found among the various methods. For the *micro-level analyses*, such as the cost benefit analysis there is a familiar and well-established research background (Mishan 1988), but the literature examining the *macroeconomic effects* of the community's interventions also enjoys a solid research base (see e.g. Romp – De Haan 2005). The two approaches have radically different methodologies, as can be seen in Table 2, although recently attempts have been made to integrate the two approaches (see Bradley et al 2005).

311 This can be reached at the following web address: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/sourcebooks/method_techniques/index_en.htm, last consulted on April 20th, 2009.

Table 1: Methods and levels of evaluation

Methods of evaluation	Levels of evaluation		
	Before (ex-ante)	Ongoing (mid term)	After (ex-post)
Sociology type methods			
1. SWOT analysis	++	+	
2 Document analysis	++	+	+
3 Personal interview		+	++
4. Focus group	+		++
5. Case study			+
6. Personal observation		+	
7. Expert panel	++		+
8. Questionnaire survey			+
9. Delphi method	+		
10. Comparison (benchmarking)	+		
Parameterizable, exact methods			
11. Geographical Information System (GIS)	+	+	++
12. Cost benefit analysis	++	+	+
13. Shift-share analysis		+	++
14. Regression analysis		+	++
15. Factor analysis	+	+	++
16. Input-output model		+	++
17. Econometric model		+	++

Note: ++ refers to the most frequent evaluation level for methods used at more than one level
Source: Rechnitzer – Lados 2004:267

Table 2: Trade-off between micro- and macro-approaches

	Micro (bottom-up)	**Macro (top-down)**
General structure	Informal , flexible, use of subjective elements	Formal, complex, objective, based on behavioural theory
Level of disaggregation	High (individual projects)	Low (aggregated, whole economy)
Use of theories	Weak (judgemental)	Strong (macroeconomics)
Model calibration	Judgemental, informal	Scientific, econometrics
Policy impacts	Implicit/ranking	Explicit/quantified
Treatment of externalities	Usually ignored	Usually explicitly modelled

Source: Bradley et al 2005:7

For the rest of this paper we will examine the effectiveness of the Union's regional policy, and for this examination the best methods are mostly case studies, model simulations and econometric analysis. In these fields the literature is extremely rich; this paper only intends to draw attention to the differences between evaluation types and is in no way designed to present a comprehensive summary. In the last chapter of the paper, despite the differing methods, we will try to draw some kind of conclusion regarding the efficiency of the operation of the structural funds and to establish some criteria on the basis of which a more efficient use of aid may be achieved.

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