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QUALITY OF LOCAL ECONOMIC AND REGIONAL DEVELOPMENT: THE EUROPEAN UNION COHESION POLICY

Abstract: *The European Cohesion Policy is probably the largest of all development programs, aiming to promote the development of lagging regions and, hence, long-term convergence. However, the effectiveness of the policy has been increasingly scrutinized in the literature, and the findings point to a heterogeneous impact on economic growth. This article aimed to assess cohesion policies on the quality of local economic and regional development of European Union (EU) countries. The research methodology was built on correlation and regression analysis, propensity score matching (PSM) techniques to analyze unique data across different EU countries that received funding for regional development projects during 2014-2020 from The Cohesion Fund (ESIF, 2014-2020). This research analyzed the impact of Cohesion Policy on economic growth in the member states of Gross domestic product (GDP) less than 90% of the GDP of the EU 27, finding heterogeneity in terms of economic structure as well as the development strategy adopted by regional governments. The heterogeneity in the financing of projects within the Cohesion Policy and regional economic development is determined by the structure of the economy and the growth potential of the country. It was found that the amount of funding from the Cohesion Fund is directly related to GDP and gross value added of the countries, with a 1% increase in investment GDP will increase by 0.4228%, the unit labor cost will decrease by -0.0457%, and gross value added will increase by 0.4258%. This heterogeneity is also a consequence of the smart specialization approach to regional development policy, which is now being discussed in the European Commission. Smart specialization of countries is extremely important in the context of the strategic role of sectors and economic growth.*

Keywords: *Local Development; Regional Development; Quality Development; Consolidation Policy; EU Economic Development*

1. Introduction

The European Cohesion Policy is probably the largest of all development programs, aiming to promote the development of lagging regions and, hence, long-term

convergence. However, the effectiveness of the policy has been increasingly investigated in the literature, and the findings point to a heterogeneous impact on economic growth. Most studies in this area have sought to answer the question of the effectiveness of cohesion policies, but there has been little

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examination of local efficacy in academic publications. In other words, most of the results suggested in the literature to date may have been influenced by an underlying heterogeneity generated by two main factors. First, the development strategies adopted by regional governments may differ substantially (Percoco, 2013). Second, the impact of these programs may vary according to different local conditions and regional economic structures. Cohesion policies are primarily devoted to supporting long-term economic growth, and therefore their outcome in terms of growth rates is likely to depend on the underlying economic structure of the region.

2. Literature review

The impact of European Cohesion policies on regional growth and GDP growth has been extensively discussed in the academic literature (Crescenzi & Giua, 2016; Bachtler et al., 2017; Giordano, 2021). Recent studies have found heterogeneity in the impact of cohesion policies on local economic and regional development (Fratesi & Wislade, 2017). Scholarly publications on the effectiveness of the European Union (EU) Cohesion Policy and its impact on regional development have predominantly investigated policy effects in the context of gross domestic product (GDP) per capita and employment growth (e.g., Bachtler & Begg, 2017; Dall'Erba & Fang, 2017; Pieńkowski & Berkowitz, 2016; Darvas et al., 2019).

One reason to explain the divergent empirical findings is that regional policy implementation is characterized by (at least) two dimensions of heterogeneity. First, EU CP is a diverse program of public intervention, uses different funding schemes, and focuses on different policy areas, ranging from providing transportation and social infrastructure development to supporting lifelong learning schemes in business. Actions in different areas likely have different effects on economic growth (Rodríguez-Pose & Fratesi, 2004). Second, although the

principles of EU CP are the same within the EU, some recent articles (Fratesi, 2016; Rodríguez-Pose & Garcilazo, 2015) have shown that the way communitarian policies are implemented and their success depends on the context of the application. This context can be defined by the specific territorial assets endowed to EU regions (Crescenzi et al., 2016; Fratesi & Perucca, 2020). In this context, the importance of the concept of smart specialization of EU regions is noted. Recently, the concept of smart specialization has attracted increasing policy attention. It has also become a major flagship issue of the European Cohesion Policy, which identifies smart specialization as a key driver for overcoming economic disparities in European regions (European Commission, 2010). The term “smart specialization” was defined in the context of a sectoral, spatial perspective and was based on a strong view of research and development (R&D) as the main source of knowledge and innovation in high-tech sectors as key drivers of regional economic growth. Initially, “smart specialization” was presented as “a concept of innovation policy that emphasizes the principle of prioritization in a vertical logic” (Foray & Goenaga 2013, p. 1) to give advantage to specific technologies, industries, and firms. More recently, the Regional Innovation Strategy for Intellectual Specialization (RIS3) is presented as the basis of the Cohesion Policy, which claims to identify sectors and, in particular, knowledge-intensive business services and technology areas where investments should be directed to specialize in these areas (European Commission, 2010).

Percoco (2017) investigates the role of structural funds and regional economic structure strategies and finds that more funding for services leads to slower regional growth. The author suggests that the service sector should be financed in its formative stage in an environment of high growth potential. It is relatively small and its productivity growth potential is higher.

Bachtrögler et al. (2020), while examining the impact of European Union cohesion policies on firm growth in 2007-2013 in seven countries, found the promotion of firm growth policies, in particular, more value-added, employment, than productivity increases. The territorial context affects policy performance for similar projects: grants were found to be more important in some cases for firms that earn less income or have a small pool of territorial assets.

Bachtler et al. (2017) based on an assessment of the performance and focus of EU cohesion policy, reforms within this policy, found the effectiveness of changes in European structural and investment funds in line with the Europe 2020 strategy (smart, permanent, inclusive growth), measures to improve strategic coherence, integrated development. The policy of cohesion of EU is effective in case of complex work of theoreticians-scientists and practitioners, qualitative state and administrative management of funds, adjusted relations between institutes, consideration of local features of implementation of programs. Berkowitz et al. (2019) examine the main direct and indirect channels through which cohesion policies influence EU economic development, particularly through research and innovation; enterprise support; and infrastructure development. Gagliardi & Percoco (2017) present an assessment of the impact of the European Cohesion Policy on the economic performance of the most disadvantaged European regions (regions within Goal #1) for the period 2000-2006. As a result, a positive impact of European Cohesion Funds on economic growth in underdeveloped areas is found. However, this influence is explained by the success of the rural areas, which are close to the main urban agglomerates. The favorable geography and the gradual suburbanization of the rural landscape create new opportunities for rural areas close to cities, thus strengthening the effect of cohesion policies.

3. Methodology

From a methodological point of view, this study is built on Propensity Score Matching (PSM) techniques to analyze unique data across different EU countries which received funding for regional development projects during 2014-2020 from The Cohesion Fund (ESIF, 2014-2020).

Funding information was obtained from a comprehensive database of EU projects and The Cohesion Fund's structural funds and beneficiaries in selected EU countries. To assess the relationship with regional economic development, panel data from the Eurostat database on GDP dynamics, unit labor costs, and gross value added (Eurostat, 2021 a, b, c) were used. The study first analyzed the indicators of financing and economic development and then assessed the relationship between the variables using correlation analysis and regression analysis.

4. Results

The ESI Funds use various funding mechanisms and instruments in the EU to provide structural and functional investment funding to countries within the framework of the € 454 billion budget for 2014-2020.

The Cohesion Fund provides funding to the Member States with Gross National Income (GNI) per capita below 90% of the EU 27 average to support economic, social, and territorial cohesion. The Cohesion Fund invests in environmental conservation projects and trans-European transport infrastructure networks (TEN-T). For the period 2021-2027, The Cohesion Fund finances projects in Bulgaria, the Czech Republic, Estonia, Greece, Croatia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovakia, and Slovenia (Table 2). The Cohesion Fund is planned to provide 37% of the total funding to meet environmental goals.

The ERDF funds programs for which the European Commission and national, regional member states are responsible. The member

state administrations select the funding projects and are responsible for managing these projects (European Commission, 2021). The Cohesion Fund finances a total of € 63.4 billion for the development of trans-European transport networks, especially projects in which all EU members are interested (European Commission, 2021a). The Cohesion Fund finances infrastructure projects within the Connecting Europe

Facility; energy projects, especially in the fields of energy efficiency, renewable energy, rail transport development, support for intermodality, and the strengthening of public transport networks (European Commission, 2021b).

Table 1 shows the total amount of funding for projects by all the Cohesion Policy Funds of the EU.

Table 1. Total amount (EU+National) allocated to the projects (operations) selected by the programme managers in EU in 2014-2020 by Funds (or total eligible cost reported by the national and regional programs to the Commission), billion euro

Country	CF	EAFRD	EMFF	ERDF	ESF	IPAE	YEI	Total amount (EU+National) allocated to the projects (operations)
Austria	0,00	35,36	0,06	9,95	3,56	0,00	0,00	48,93
Belgium	0,00	7,13	0,24	12,11	12,29	0,00	1,37	33,14
Bulgaria	11,33	11,42	0,27	19,08	7,75	0,00	0,79	50,64
Croatia	17,32	9,15	0,97	25,44	7,95	0,00	1,16	61,98
Cyprus	1,46	0,95	0,18	1,84	0,76	0,00	0,16	5,35
Czech Republic	31,85	15,22	0,14	67,85	20,07	0,00	0,19	135,33
Denmark	0,00	5,95	1,24	1,98	1,89	0,00	0,00	11,07
Estonia	7,30	4,68	0,46	11,13	4,02	0,00	0,00	27,58
Finland	0,00	37,23	0,59	7,72	5,11	0,00	0,00	50,65
France	0,00	76,86	1,67	85,16	48,98	0,00	7,84	220,51
Germany	0,00	69,08	0,89	81,51	66,93	0,00	0,00	218,41
Greece	19,76	23,94	1,44	65,65	22,40	0,00	2,00	135,19
Hungary	45,69	21,36	0,14	73,35	29,56	0,00	0,66	170,76
Interreg	0,00	0,00	0,00	60,20	0,00	2,30	0,00	62,50
Ireland	0,00	26,63	0,93	4,41	6,42	0,00	1,43	39,82
Italy	0,00	76,96	2,49	132,15	59,64	0,00	9,93	281,17
Latvia	6,19	7,80	0,64	14,19	4,02	0,00	0,46	33,31
Lithuania	11,33	8,19	0,23	20,31	5,87	0,00	0,48	46,42
Luxembourg	0,00	1,50	0,00	0,27	0,32	0,00	0,00	2,10
Malta	1,09	0,46	0,12	2,24	0,84	0,00	0,00	4,76
Netherlands	0,00	5,32	0,53	7,93	6,33	0,00	0,00	20,11
Poland	128,66	39,22	1,80	228,16	57,52	0,00	3,52	458,87
Portugal	15,22	25,79	1,83	102,28	40,25	0,00	3,09	188,46
Romania	57,96	42,08	0,63	61,09	18,88	0,00	0,13	180,78
Slovakia	23,80	9,57	0,02	34,99	13,61	0,00	1,63	83,61
Slovenia	5,58	4,29	0,07	8,35	4,75	0,00	0,15	23,18
Spain	0,00	47,22	2,83	92,68	49,60	0,00	17,16	209,50
Sweden	0,00	20,35	0,55	10,69	6,13	0,00	0,83	38,55
United Kingdom	0,00	35,91	1,17	49,28	42,92	0,00	2,14	131,42
Total	384,53	669,62	22,13	1292,02	548,37	2,30	55,13	2974,11

Source: author calculation ESIF (2014-2020).

The Cohesion Fund accounts for 13% of the total cohesion policy budget, EAFRD for 23%, EMFF for 1%, ERDF for 43%, ESF for 18%, and YEI for 2%. Most of the money was allocated to projects in the following countries: Poland € 458.87 billion, Italy € 281.16 billion, France € 220.51 billion, Germany 218.41 billion Euro, Spain € 209.50 billion, Portugal € 188, 46 billion, Romania €

180.78 billion, Hungary € 170.76 billion, the Czech Republic € 135.33 billion, Greece € 135.18 billion, the United Kingdom € 131.41 billion.

Table 2 provides information on financing projects of member countries within the Cohesion Fund budget in 2014-2020.

Table 2. The Cohesion Fund Total amount (EU+National) allocated to the projects (operations) selected by the programme managers in EU in 2014-2020, million euro

Country	2014	2015	2016	2017	2018	2019	2020	2021	CF Total Funding
Bulgaria	0,0	13,3	84,3	196,2	420,1	582,6	831,2	943,0	3070,7
Croatia	0,0	0,0	3,8	123,2	247,7	559,1	905,3	1162,3	3001,4
Cyprus	0,0	0,0	2,7	56,9	104,1	118,9	142,7	188,7	614,0
Czech Republic	0,0	0,0	225,0	1205,9	2206,8	3299,1	4689,3	5165,8	16791,8
Estonia	0,0	60,5	175,0	376,9	650,5	895,8	1089,4	1184,1	4432,2
Greece	0,0	6,1	280,8	502,7	667,8	933,8	1158,5	1234,3	4783,9
Hungary	0,0	0,0	448,9	939,1	1877,2	3193,2	4496,2	5033,3	15988,0
Latvia	0,0	43,7	126,2	205,2	333,8	509,4	710,2	773,4	2701,8
Lithuania	0,0	0,0	335,9	532,2	840,5	1295,7	1658,3	1818,0	6480,7
Malta	0,0	0,0	6,5	17,2	73,8	122,9	164,1	155,2	539,7
Poland	0,0	414,1	2215,4	4979,4	8060,0	11863,3	14942,9	16642,9	59117,9
Portugal	0,0	0,0	67,0	278,0	646,3	1013,0	1422,0	1658,7	5085,1
Romania	0,0	0,0	138,0	1004,5	1626,8	2174,6	3474,3	4087,3	12505,5
Slovakia	0,0	35,0	305,3	762,7	1625,2	2187,0	2605,2	2805,0	10325,5
Slovenia	0,0	0,0	78,7	118,1	301,2	405,3	563,0	656,7	2123,0
Total	0,0	572,6	4493,5	11298,1	19681,8	29153,7	38852,7	43508,6	147561,1

Source: author calculation ESIF (2014-2020)

The most funded projects are in Poland € 59117.91 million or 40%, the Czech Republic € 16791.83 million or 11%, Hungary € 15987.96 million or 11%, Romania € 12505.49 million or 8%, Slovakia € 10325.45 million or 7%.

Table 3 shows the main economic indicators of the development of countries financed by the Cohesion Fund, which indicate that countries with a larger GDP volume receive more funds for projects (Poland with an average GDP of \$ 489.9 billion, the Czech Republic - 204.7 billion dollars, Hungary - \$ 132.2 billion, while Romania, Slovakia with significantly smaller amounts of GDP (€

200.7 billion and € 88.1 billion for 2016-2020 respectively) also receive a high proportion of funding.

The correlation analysis shows a direct relationship between the financing of CF projects and economic growth (GDP), gross value added (Table 4). Regression analysis based on panel data is appropriate for each indicator of economic development sequentially to exclude the probability of regression coefficient estimates bias through multicollinearity of variables. For the commensurability and homogeneity of the data, the natural logarithm was used to calculate the correlation coefficients.

Table 3. Main indicator of economic growth by country of CF financing in 2016-2020

Country	CF Funding, mln. Dol.		GDP at market prices, billion dol.		Unit labor cost, compensation per employee, thsd. Euro		Gross value added, billion euro	
	2020	Average, 2016-2020	2020	Average, 2016-2020	2020	Average, 2016-2020	2020	Average, 2016-2020
Bulgaria	831,2	422,9	60,6	55,8	10,7	9348,3	52,5	48,2
Croatia	905,3	367,8	49,3	50,3	17,3	16758,6	41,1	41,5
Cyprus	142,7	85,1	20,8	20,7	24,5	24617,6	18,4	18,1
Czech Republic	4689,3	2325,2	215,3	204,7	21,6	19554,1	195,8	184,8
Estonia	1089,4	637,5	26,8	25,2	24,7	21609,4	23,5	21,9
Greece	1158,5	708,7	165,8	176,1	20,8	20508,9	145,7	153,4
Hungary	4496,2	2190,9	135,9	132,2	13,5	13105,1	114,9	111,9
Latvia	710,2	376,9	29,3	28,2	20,1	17578,4	25,5	24,6
Lithuania	1658,3	932,5	48,9	44,9	19,9	16923,4	43,9	40,3
Malta	164,1	76,9	13,1	12,5	27,0	26065,1	11,8	11,2
Poland	14942,9	8412,2	523,7	489,9	16,0	14688,9	461,0	430,8
Portugal	1422,0	685,3	200,1	200,4	23,2	21839,3	174,3	173,8
Romania	3474,3	1683,6	218,2	200,7	13,7	11785,1	198,8	181,5
Slovakia	2605,2	1497,1	91,6	88,1	19,6	17843,9	82,0	79,0
Slovenia	563,0	293,3	46,9	44,9	30,0	27789,4	41,5	39,2

Source: author calculation ESIF (2014-2020); Eurostat (2021 a, b, c)

Table 4. Correlation matrix between CF project financing and economy growth indicator

	LN (CF_Fund)	LN (GDP)	LN (ULC)	LN (GVA)
LN (CF_Fund)	1			
LN (GDP)	0,686437172*	1		
LN (ULC)	-0,24681105	-0,3729487	1	
LN (GVA)	0,689360777*	0,9997178*	-0,369233	1

Source: author calculation ESIF (2014-2020); Eurostat (2021 a, b, c).

* significant correlation coefficients at 5%

Table 5 provides regression statistics indicating the impact of project financing in various European countries through the Cohesion Fund: financing explains a 47.12%

change in GDP, a 6.09% change in the cost of labor unit, and a 47.52% change in gross added value.

Table 5. Results of the regression analysis: independent variable LN (CF_Fund), regression statistics

Regression statistics	LN (GDP)	LN (ULC)	LN (GVA)
Multiple R	0,6864	0,2468	0,6894
R-square	0,4712	0,0609	0,4752
Normalized R-square	0,4640	0,0481	0,4680
Standard error	0,7466	0,2994	0,7458
Observations	75,0000	75,0000	75,0000
F estimated	65,0474	4,7353	66,1055
Significance of F	0,0000	0,0328	0,0000
F critical	3,97		

Source: author calculation ESIF (2014-2020); Eurostat (2021 a, b, c)

The regression models generated at 5% significance level (margin of error) reflect the adequacy of calculations (calculated values of statistics F exceeded the critical value).

Table 6 shows the values of coefficients and

their significance (with the probability of making a mistake in accepting the hypothesis of significance of coefficients of 5% all values of t-statistics confirm the significance of coefficients).

Table 6. Results of the regression analysis: independent LN variable (CF_Fund)

	Coefficients	Standard error	t-statistics	P-value*
LN (GDP)				
Y-crossover	8,5787	0,3355	25,5731	0,0000
LN (CF_Fund)	0,4228	0,0524	8,0652	0,0000
LN (ULC)				
Y-crossover	10,0738	0,1345	74,8888	0,0000
LN (CF_Fund)	-0,0457	0,0210	-2,1761	0,0328
LN (GVA)				
Y-crossover	8,4275	0,3351	25,1497	0,0000
LN (CF_Fund)	0,4258	0,0524	8,1305	0,0000

Source: author calculation ESIF (2014-2020); Eurostat (2021 a, b, c).

*significant correlation coefficients at 5%

With a 1% increase in Cohesion Fund funding, EU countries' GDP could grow by 0.4228%, unit labor cost could decline by -0.0457%, and gross value added could grow by 0.4258%. Thus, the EU cohesion policy has a positive impact on the economic development of EU countries.

5. Discussion

In the coming years, if Cohesion Policy becomes more effective and results-oriented, it will have to be more evidence-based. While there has been significant progress in addressing economic growth through funding projects through the Cohesion Fund, the shift to semi-parametric and half-parametric approaches at the national and regional levels may weaken the link to the causal framework underlying the logic of intervention that is the foundation of Cohesion Policy programs. Cohesion policy remains a black box in these approaches. The call here, therefore, is for a much greater focus on the mechanisms of transfer from public investment to production and their impact on member economies. To identify these mechanisms, it is useful to combine different approaches, namely “different methods and approaches should be

used in a convergent, synergistic and eclectic way to provide policymakers with information on how ... territorial policies can contribute to economic and social cohesion”. However, eclecticism should not mean dispersion of effort. It is advisable to start with a limited number of direct and indirect effects, as indicated above, to build a dialogue between politicians and academics, where regional characteristics, type of beneficiary, and economic development factors can be controlled.

The Cohesion Policy ensures the achievement of the objectives broad set (economic growth, competitiveness, employment, environmental sustainability, social inclusion, innovation, etc.). Cohesion Policy is expected to deliver results in all EU regions (not only in the most disadvantaged regions of countries with GDP below the EU 27 average), addressing an extremely diverse set of problems under different territorial conditions. The literature has extensively covered the challenges associated with the interaction between the single Cohesion Policy framework and different territorial contexts, but very limited research on the heterogeneity of effects associated with different macro-national contexts and models for implementing

funding mechanisms. Several studies have identified the characteristics of particular national contexts of cohesion projects and their importance in shaping economic and social, environmental impacts (Medeiros, 2017). In addition, Brexit and the rise of nationalist movements in almost all EU countries have led to discussions about the role of nation-statehood in the context of the future of EU Cohesion policy.

This requires a careful analysis of the effects of Cohesion Policy in terms of growth and employment. Crescenzi & Giua (2020) used an innovative strategy to identify a large sample of NUTS-3 regions in different member states with heterogeneous national macro institutions and political conditions for the implementation of Cohesion Policy to study its impact on economic growth. Based on this empirical strategy, a Europe-wide positive effect of Cohesion Policy on both growth and employment was found. However, it also finds heterogeneity in these regional impacts across member states. Cohesion Policy has had a positive and significant EU-wide impact on both regional economic growth and employment. The positive economic impact on regional employment is reflected in overcoming the Great Recession and supporting less developed regions during the recovery. However, these positive effects are not evenly distributed within the regions of all member states. Germany is the member state where much of the regional growth is concentrated through cohesion policies. Conversely, the impact on regional employment is largely limited in the UK. Southern European countries have a much smaller impact on the economy. The Italian beneficiary regions have achieved the best employment performance, but this effect was absent during the Great Recession. Conversely, Spain's beneficiary regions only benefited from the Cohesion Policy in terms of better growth in the recovery phase after the Great Recession, with no effect on employment.

Védrine & Le Gallo (2021), based on the fixed-effects regression estimation of 205

regions of the EU-27 during 2000-2014, confirm the positive effect of EU structural fund financing on economic growth. The authors also found regional differences in the above positive relationship: if the EU-25 regions increase the amount of funding, then no significant changes in economic growth are observed; if the amount of EU structural funds funding for projects of the NMS regions (Central and Eastern European countries) is doubled, then GDP per capita will increase on average by 2.7%. Differences in regional growth are related to funding through different structural funds. For example, the Central and Eastern European regions are financed by the ERDF and ESF, whose financing affects GDP per capita (4.6% and 6% respectively). In the new EU-15 members, funding through the EAFRD is negatively related to growth (GDP -1.9%). Dyba et al. (2018), meanwhile, find a positive impact of cohesion policies on the CEE countries' development in 2007-2014. Védrine & Le Gallo (2021) also found a reduction in regional imbalances, but a reduction in economic growth in some EU-15 regions, while funding in EU-25 regions overall has a positive effect on economic growth and a reduction in economic imbalances. The reduction in imbalances may be due to the reallocation of EU funds through structural funds to the poorest European regions, especially after the economic downturn (Crescenzi & Giua, 2020).

Crescenzi & Giua (2020), examining the effectiveness of EU member state cohesion policies by constructing panel regressions for 2000-2010, found a positive effect on employment (UK) and economic growth (Germany) with different effects across countries. For example, the effect is almost imperceptible in Southern Europe (peripheral and poorest regions), employment in Italy does not significantly depend on financing through structural funds, Spain benefits from investments only during economic growth.

Fiaschi et al. (2018) based on the construction of "a spatial growth model" for 12 EU countries for 1991-2008 found a significant

impact of financing rural areas close to cities through structural funds on GDP growth per worker at a financing-to-GDP ratio of 3%, while once this ratio reaches 4% there is almost no impact. Over time, cohesion policies have an increasingly positive effect on economic growth. Under the goal of increasing regional competitiveness, cohesion policy provides 1.4% growth in GDP per worker and a reduction in regional disparities. This means that it is advisable to finance through structural funds, taking into account the spatial geographical concentration of regions. In this context, it is important to pursue a course of "smart specialization" to promote innovation in different regional contexts and heterogeneous EU environments.

6. Conclusion

This research analyzes the impact of Cohesion Policy on economic growth and its

quality in the EU member states of less than 90% of the GDP of the EU 27, revealing heterogeneity in terms of economic structure as well as the development strategy adopted by regional governments. The heterogeneity in the financing of projects within the Cohesion Policy and regional economic development is determined by the structure of the economy and the growth potential of the country. It was found that the amount of funding from the Cohesion Fund is directly related to GDP and gross value added of the countries, with a 1% increase in investment GDP will increase by 0.4228%, the unit labor cost will decrease by -0.0457%, and gross value added will increase by 0.4258%. This heterogeneity is also a consequence of the smart specialization approach to regional development policy, which is now being discussed in the European Commission. Smart specialization of countries is extremely important in the context of the strategic role of sectors and economic growth.

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