Institutions and Cohesion Policy in the European Union

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Abstract

This paper examines one of the most significant policies of the European Union, namely the cohesion policy, focusing on the institutions which shaped it and are responsible for its implementation. With this in mind, first, the appropriate literature is reviewed. Second, using scatterplots, the correlation between the quality of regional institutions and the absorption of funds from the European Regional Development Fund for the operational period 2014-2020 is tested. The findings of this dual assessment demonstrate that institutions, especially regional, are one of the most vital cogs for a region's ability to absorb cohesion policy's funds. In turn, this observation is of great importance as the member-states are bound to use the European Recovery and Resilience Fund to overcome the effects of the COVID-19 subsequent economic crisis.

***Keywords**: European Union, Cohesion Policy, ERDF, Institutions, Rule of law, COVID-19*

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1. Introduction

The prevailing economic theories suggest that economic development is a result of the three factors of production – capital (natural, economic and human) and innovation. Both the neoclassical model (Solow, 1956) and the endogenous development model (Romer, 1986), use these three characteristics to explain the economic development of states. However, these factors have gradually lost their ability to explain the different rates of development across different nations, thus creating an interpretive gap. One concept which is claimed to fill this chasm is the concept of institutions (Acemoglu & Robinson, 2012).

One of the most influential researchers on institutional theory, W. North (1991), defines them as:

> “**The humanly devised constraints that structure political, economic and social interaction**”

Those constraints may result from the regulatory framework (formal constraints) or they may be based on the socio-economic norms of one state (informal constraints). The latter, set the framework in which the first category will be decided, hence both categories complement each other. Written law is an example of formal constraint while culture and more specifically characteristics such as trust or taboos provide an example of informal constraints.

The concept of Institutions as a variant of economic development is even more timely for the European integration project. That is the case as the European Union (hereinafter the E.U.) ex officio provides a forum where the political, economic and social relations of member states (m-s) intertwine between each other. Despite this interaction, the internal institutional structure of the m-s alters substantially, henceforth affecting how one law is negotiated and implemented.

The same procedure applies to the respective Union policies, especially those of which the EU enjoys shared competence with the m-s. One such significant area is the European Union’s Cohesion Policy (Ketterer & Rodriguez-Pose, 2016). This policy area funds the main themes of the Von der Leyen’s cabinet, representing 44% of the European budget (European Commission, 2021). Its objectives include the promotion of important infrastructure projects, actions to tackle unemployment and the financial support of small and medium enterprises. To achieve this multitude of goals, the EU has opted for a decentralized organization model in which different bodies from the European to the local level participate based on the principle of partnership (Piattoni, 2016). These institutions are responsible for co-determining which objectives should be achieved, planning the measures to be taken, managing the allocated funds and, finally, monitoring and evaluating the results.

Therefore, achieving cohesion policy objectives depends greatly on the characteristics and the quality of the institutions responsible for its implementation. Nevertheless, most scholars examine institutions on the national level (Tosun, 2014). This view, treats each state as institutionally and culturally unified, not taking into account geographic peculiarities, historical backgrounds and the central or decentralized system of regional organization. Indeed, recent papers regarding the quality of institutions within m-s reveal the image of a mosaic, ie regions that differ significantly from each other in terms of governance but are brought under the same banner via a set of common principles. In addition, these approaches have provided new indicators for comparing regional institutions from the lens of quality of government levels. Especially, the European Quality of Institutions Index, developed by the Institute of the University of Gothenburg, contains all European Union regions at the NUTS1 and 2 level[1], presenting a very useful tool for our better understanding of them. Consequently, a new hypothesis has been put forward - that part of the variation in levels of economic development and social cohesion levels within the m-s is explained by the differences on the quality of regional institutions (Rodrik, 2000; Charron et al., 2012).

This hypothesis can also include the effects of cohesion policy across the m-s territory. However, the effectiveness of a policy, which runs through several social sectors such as public investments, unemployment, the environment etc. is not easily proven. Thus, finding and addressing the factors that hinder its implementation becomes an extremely demanding task. In order to tackle this problem, some theoretical approaches use the purely numerical percentage of absorbed EU funds to suggest an effective cohesion policy implementation (Achim & Borlea, 2015). Even though this method has been criticized as overly simplistic, it nevertheless remains capable of presenting comprehensible and easily comparable conclusions (Polverari, 2016).

Combining the aforementioned, this paper, primarily aims to verify the above theories, identifying the role of regional institutions in the absorption rates of Cohesion Policy funds from EU regions. Secondly, its goal is to examine and analyze the institutional framework, ie the administrative, economic and legal framework, in which cohesion policy is implemented.

The paper is structured as follows: First, I examine the economic foundations of cohesion policy in order to get a sense of its importance for the EU (2.1). Next, I provide a broad exploration of the most widespread theoretical approaches concerning how institutions operate in the cohesion policy framework, and especially the policy's historical development (2.2), its procedures (2.3) and the main

[1] Distinction of the territory of European countries with the aim of better statistical analysis and comparison. For more information see Chapter 4.1.

obstacles in its implementation (2.4). Chapter 3 assesses the impact of institutions on the absorption rate of cohesion policy funds. In particular, I describe the concept of quality of governance (3.1), absorption capacity (3.2) and how the two combine in the context of cohesion policy (3.3). Chapter 4 presents via scatterplots the correlation between regional institutions and the absorption rates from the European Regional Development Fund. Then, chapter 5 analyzes the future of institutions in cohesion policy as a part of the concept of rule of law (5.1) and as a vehicle for the absorption of funds from the Resilience and Recovery Fund (5.2). Lastly, chapter 6 presents the findings and some final remarks of this paper.

2. The Institutional framework of Cohesion Policy

2.1 The Economic foundations of Cohesion Policy

The fiscal nature of Cohesion Policy

According to Musgrave's (1959) traditional distinction of public economics, any state intervention in this area can affect three aspects of the economy. Firstly, the optimal distribution of resources, supporting sectors and regions where market failures are observed, secondly, the redistribution of resources, reducing the distance between different social layers and lastly, the stabilization of the demand side of the economy in the case of sudden economic turbulences. Cohesion Policy may assist the European economy in all three dimensions.

Oates's theorem advocates that when there is heterogeneity of preferences and in the absence of economies of scale or externalities, then decentralized decision-making should be preferred (Oates, 1972). Keeping this in mind, considering cohesion policy as a distributive scheme would mean that significant externalities or spillovers exist. However, that isn't the case as its beneficiaries are mostly the least economically developed areas where statistically significant spillovers aren't observed, undermining the policy's distributional role (Begg, 2016). Nonetheless, the status quo seems to be changing as the Structural Funds are used more and more to achieve common European goals such as those outlined in the "Europe 2020" strategy. This means that the EU is focusing on the provision of European public goods[2] and therefore its jurisdiction matches the place where the policy's effects occur (Fuest & Pisani-Ferry, 2019).

The redistributive aspect of a public policy can be described as a transfer of resources from the wealthiest to the less wealthy members of a community. However, since the EU lacks competence in the field of social policy, its role cannot, in the above-mentioned sense, be redistributive. Nevertheless, the fact that in the European budget, some m-s are net-contributors, suggests that a quasi-redistributive scheme exists. Cohesion policy, is the main channel for the outflow of resources from the budget, assisting either specific countries (Cohesion Fund) or certain regions (European Regional Development Fund and European Social Fund). Thus, when it reallocates funds from affluent states to less affluent ones it acts as a redistributive public policy. According to Dupont & Martin (2006) this need arises from the limited labour mobility in the EU, which exacerbates regional disparities[3].

[2] That is, goods that are neither competitive nor exclusive. Such goods cannot be offered in the markets due to a lack of financial incentives (Burda & Wyplosz, 2008).

[3] According to the OECD, in 2012 the percentage of labour mobility in the EU accounted for just 0.3% while in the USA was close to 2.5% (Katsimi, 2016).

Furthermore, it is claimed that the European integration project, as it has been put forward with the creation of the Single Market and the common currency, generates winners and losers, with the former being morally obliged to compensate the latter. However, this position implies that some countries need to be "bought" in order to adopt detrimental policies for themselves. On the other hand, such compensation could be achieved more effectively through the direct transfer of resources from one country to another in the form of loans rather than the complicated procedure of the Structural Funds (Barca, 2009).

The EU's regional policy, can be of great use for the stabilization of economic activity when the latter is disrupted. Kaldor (1975) suggests that the transfer of resources will balance the demand across regions, creating better trade-off between inflation and unemployment, an outcome endorsed by the Delors Commission report (1989). It is disputed, however, whether the Structural Funds in particular carries the ability to stabilize an economy since their operation isn't counter-cyclical. On the contrary, they operate on a specific time and local context which is then refined in operational programs. Even if a certain flexibility for the funds' use exists (for example when one region is rewarded for achieving certain goals[4]), dealing with the 2008 financial crisis has shown that the contribution of Structural Funds isn't sufficient to curb demand shocks. After all, the principle of co-financing[5], means that countries whose public finances are under pressure, won't be able to support economically a part of the selected projects. At the same time, a negative disruption will increase the interest rate spreads and consequently augment the cost of capital for the upcoming investments (Begg, 2016). Nevertheless, there are signs that during the 2008 financial crisis cohesion policy supported another economic objective, the convergence of economies (Merler, 2016).

The Catch-up effect hypothesis

The European Commission defines cohesion policy as:

> *"Cohesion policy is the European Union's strategy to promote and support the 'overall harmonious development' of its Member States and regions."*[6]

This definition suggests that the policy's key concern is to promote economic and social convergence between m-s and their regions. In doing so, it implies the need for state intervention. Interventions in the field of economic and social convergence are founded on two assumptions (Molle, 2006).

[4] Art. 20 Common Provisions Regulation (CPR) 1303/13.

[5] Ie. the principle of gaining resources both from the EU and the beneficiaries either via private funds or loans. See also chapter 2.3.

[6] Glossary - Regional Policy - European Commission (europa.eu)

The first premise is the fact that an optimal utilization of resources depends on an optimal usage of every factor of production. In turn, this efficiency leads to an increase in the society's living standards. Therefore, if certain factors of production remain unexploited, the state can intervene by identifying bottlenecks or any other structural characteristics that act as stumbling rocks to realizing full efficiency (Burda & Wyplosz, 2008).

The second assumption is based on the hypothesis that since people must meet similar basic needs, a society would be fairer and more cohesive if those needs were met to the same extent. The concept hinted here is the concept of equality. From a socio-political perspective, the existence of inequalities is unacceptable as it might lead to a heterogenous mix of citizens, cause disruptions in the policy-making process and reduce overall welfare (Molle, 2006).

However, carrying of any task based on both assumptions is inherently contradictory. This is because a trade-off exists between efficiency and equality (Burda & Wyplosz, 2008). It is the duty of the political powers to determine where the point of balance exists for every society. Cohesion policy, though, is characterized also by the fact that it is an outcome of the economic integration achieved in the continent. The latter, either as a result of the European integration project or globalization, has preoccupied scholars over its outcomes in relation to countries' development levels.

The holy grail of the convergence theory is offered by the Solow Model. It hypothesizes that, with technology levels being the same in free trade conditions, per capita income levels will converge across two countries as they have access to the same level of technology and expertise[7] (Burda & Wyplosz, 2008).

Similar optimistic forecasts are provided by the Factor Price Equalization Theorem, a finding of the Heckscher-Ohlin model for international trade. According to this, if two economies exchange products without any additional barriers (tariffs, quotas etc)[8], then prices of products will be the same for both countries. Consequently, the cost of the factors of production will converge since their marginal product intersect (Molle, 2006).

Critics of the above-mentioned theories have centered on the model's limited empirical verification in relation to their predictions about attaining real convergence. Although, the existence of some "convergence clusters" confirms these theories, many regions remain in so-called growth traps. This

[7] Analysing the Solow Model is not one of the aims of this paper. More information is provided inter alia in Burda & Wyplosz, 2008.

[8] The Factor Price Equalization Theorem is based on eight assumptions, the coexistence of which provides a serious stumble block for confirming the theorem in real life.

situation may result from strong agglomeration forces which push the factors of production towards already developed regions thanks to the freedom of mobility which comes together with an economic union. These forces might also come from structural deficiencies of the area of origin or its geographical features (Ketterer & Rodriguez-Pose, 2016).

In the literature, this lack of real convergence is justified by the different production functions between countries. These differences issue from missing inflows which would boost the productivity of capital. The quality of human capital, the state of public and social infrastructure (ie rule of law, intellectual property etc) are mentioned as such inflows (Burda & Wyplosz, 2008).

Cohesion Policy recognizing the importance of such inflows, has been transformed during the recent operational periods into a tool of endogenous growth. Namely, it aims to enhance thematic areas like Research and Development, investing in human capital as well as social and public capital (Grusevaja & Pusch, 2011). In doing so, it matches completely the possible absent inflows of an economy.

Pooling investments in specific weak regions seems to confirm the proponents of geography as a variable that determines the development potential of a region and therefore the need for additional state support. However, connecting the selection of projects with the aims of strategies like “EUROPE 2020” or “Horizon 2020” reveals that cohesion policy has transformed into a tool for accomplishing common European goals. Therefore, the European Commission seems to advocate the hypothesis that every region has development potential and institutions play a significant role in identifying and accomplishing this potential (Rodriguez-Pose & Ketterer, 2020).

This shift, however, required the contribution of a number of external factors and events that provided the necessary "fuel" for the creation and development of a European Cohesion Policy.

2.2 The policy’s historical development

Despite obtaining several economic benefits, the foundation of an economic union between countries with different levels of development, different unemployment levels and different production functions, could always prove frivolous in regards to how those benefits would be redistributed. That is why, in the preamble to the Rome Treaty in 1957, it was stated that one of the EU aims is:

> *“[...] reducing the differences existing between the various regions and the backwardness of the less favoured regions.”*

Nonetheless, this particular aim lacked a specific mechanism of realization. Due to the political inertia that characterized the founding m-s on the issue, the initial choice was to set up a Structural Fund – the European Social Fund – whose objective would be to finance specific investment projects (Molle, 2006). This balance, which lasted for at least two decades, shows the absence of the building blocks for the creation of a distributive or redistributive economic policy, that takes into account the regions most in need. Nevertheless, the progress of the European integration project, with the creation of a customs union, would soon have repercussions on the dynamics of European peripheries, developed or not.

With tectonic changes in the economic and social environment, the catalyst was the first enlargement of the Communities, with the accession of the United Kingdom, Ireland and Denmark in 1973. The increase in available resources was followed by a change in the sensitive negotiating balance. Given France's attempt to set up a Common Agricultural Policy, the United Kingdom deemed that this policy wouldn't benefit itself while being a net contributor (Bache, George & Bulmer, 2011). Meanwhile, several of the country's former industrial regions were experiencing an economic decline. It was in these conditions that the m-s were convinced of a need to set up a new European policy along with a new fund. Italy was one of the advocates of this revelation considering that due to the different regional development levels, the country was characterized by a structural deficiency (Molle, 2006). Of course, apart from any politics, the current status quo proved to be unable to reduce the regional disparities. At the same time, the imminent accession of three new members with even lower macroeconomic figures, exacerbated the need to reshape the Union's position on the issue of economic and social cohesion.

The first step was to create the European Regional Development Fund (ERDF) in 1975 with a goal according to art 176 TFEU to:

> *"[…] help to redress the main regional imbalances in the Union through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions."*

Achieving these objectives, however, remained at the exclusive jurisdiction of the m-s. It was the acceleration of the Common Market process that would force the national governments to take a different approach (Bouvet & Dall'Erba, 2010). In 1988, a milestone year for the Structural Funds, the EU institutions led by the European Commission, under Jacques Delors, laid new and solid foundations for the development of a common cohesion policy recognizing that the European integration project while creating multiplying benefits for each m-s, would also augment current inequalities (Delors, 1989). Therefore, the Single European Act, under title XVII, proclaimed the economic and social cohesion as a Union goal. Furthermore, Regulation 2052/88, which would determine the Structural funds' aim and coordination, entered into force. This model was characterized by a relatively simple architecture in terms of procedures and monitoring of projects. A plethora of resources and a leading role of the Commission in policy-making, meant that the first Community Support Framework was a quasi-pilot program which aimed mostly to guarantee the legitimacy of proceedings, so as to legitimize itself rather than attaining certain objectives (Dianeosis, 2016).

The creation of the Cohesion Fund in 1993 as a result of the Maastricht Treaty (1992) proved to be the next chapter of the gradual transformation of the cohesion policy. This particular fund was supposed to aid just the regions most affected by the Common Market and the Common Currency, which was around the corner[9]. The growing significance of the Structural Funds for the m-s is revealed by the exponential increase in the amounts allocated to the policy following each treaty. Yet, more available resources meant more possibilities for squandering public funds. For this reason, these regulations have undergone constant modifications in order to optimize the allocation of funds and monitor more strictly the beneficiaries (Molle, 2006). The following operational periods were characterized among others, by a management system that determined specific goals[10], the compulsory creation of management authorities in every m-s, responsible for the assignment and monitoring of the financed projects and, finally, the adoption of time restraints on the disbursement of resources[11]. It is clear that the Commission opted for a more intrusive role, by actively participating in the allocation of resources and control their use by the bloc's governments (Stephenson, 2016).

The so-called big bang enlargement of 2004, posed a major challenge for cohesion policy since the list of net beneficiaries expanded to the detriment of net contributors. The increase in beneficiaries meant that the role of a centralized body, ie the Commission's, should decrease because it would be impossible to maintain such a pivotal place. Meanwhile, more beneficiaries equal more available funds. The combination of a decentralized managerial model and the inflation of resources led to the further tightening of the regulations and the abolition of the co-responsibility principle, which had been established over the previous period. In addition, the achievable targets were condensed in order to simplify the assessment of the effects of Community actions (Molle, 2006).

The most important revision of the treaties, the Lisbon Treaty (2007) caused a bountiful of changes to the cohesion policy as well. The treaty renewed concisely and thoroughly the policy's legal basis,

[9] That is, Greece, Ireland, Spain and Portugal.
[10] B' Community Support Framework (1994-1999).
[11] C' Community Support Framework (2000-2006).

classifying it in the category of shared competences, ie those where the EU is able to legislate as long as it can do so more effectively than the m-s. The treaty clarified also the definition of affected regions, that presumably need financial support (art. 174 TFEU). Respectively, the rules for the 2007-2013 operational period contributed to the restructuring of the Commission's role, as a body responsible for the general supervision and control of the policy (Kalavros & Georgopoulos, 2013). Nevertheless, granting flexibility to the m-s signified an increase in the administrative burden by means of three-year reports to the Commission in relation to the absorption process and fulfillment of the "Lisbon Strategy" targets.

The 2008 financial crisis, followed by the 2010 fiscal crisis, mainly hit the fiscally weakest states of Southern Europe. As such, the disbursement of Community funds was made more difficult while voices were raised to use cohesion policy as a mechanism to counter this economic shock. Despite the relevant discussion, and the temporary measures taken, the current operation period 2014-2020 imitated by large the previous period, limiting, and refining the achievable targets (Dianeosis, 2016). European funds connected with the "EUROPE 2020" policy which aims at a Smart, Sustainable, and Inclusive growth, following the path of endogenous development (European Commission, 2015).

This brief historical recursion highlights many elements about the character and nature of the EU's cohesion policy. Firstly, it acts in accordance with the Union's teleology as each revision of the treaties or the accession of new members leads to the policy's restructuring according to the latest needs (Kalavros & Georgopoulos, 2013). Thus, it is clear that the policy must be included in the core of EU policies from a negotiating perspective.

Above all, the role of institutions in the policy's development must be observed. Lacking any institutional backing, the impact of the Structural Funds was limited. It was only when economic needs arose that a restructuring, via the establishment of a framework which foresaw the creation and the contribution of both formal and informal institutions, was made possible. So, cohesion policy was developed as a holistic framework of rules, bodies, and a new culture of governance. This groundbreaking system of administration was later adapted as the concept of "Multilevel Governance".

2.3 The policy's implementation procedure

Implementing cohesion policy is as an indicative example of multi-level governance, especially after the reforms of the 2014-2020 operational period. This method of governance, is based on setting common goals, accomplished by the cooperation of equal members (despite hierarchical and binding characteristics), and under the instructions of a centralized body. Multi-level governance has been adopted by the EU as the Open Method of Coordination (OMC) (Bache, 2010).

Moreover, cohesion policy gathers many elements from the concept of experimental governance. The latter has been recently developed and signals an innovative way of policy making where programs are appraised and restructured constantly. Thus, a significant part of the concept is the ability to monitor and evaluate their performance. This information lays the foundations to support the execution of once central state responsibilities by more decentralized and autonomous bodies (Mendez, 2011).

Nevertheless, this kind of governance necessitates a significant regulatory framework to ensure the lawfulness and safety of procedures. Indeed, a process which commences from the European Commission, passes through a multitude of junctions, and culminates in the m-s's territory is reasonably thought of as labyrinthine. The real problems arise when the regulatory framework is characterized by complexity. The latter leads to high error rates by the administrations which mean financial losses or higher administrative costs for their deterrence and can account sometimes to 3% of the total budget[12] (Ferry & Polverari, 2018).

After 30 years of successful operation, cohesion policy has acquired the status of a formal institution. That is because it has set up a holistic framework where fundamental principles, rules and a whole system of policy making coexist. Analyzing this framework is a prerequisite to discuss later the problems which arise during the implementation of Cohesion Policy.

i. The European Regulatory Framework

Starting with the primary Union law, article 175 TFEU[13] profoundly states the competence of union bodies for cohesion policy. It is stated that:

> *"Member States shall conduct their economic policies and shall coordinate them in such a way as, in addition, to attain the objectives set out in Article 174[14]. [...] The Union shall also support the achievement of these objectives by the action it takes through the Structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section; European Social Fund; European Regional Development Fund), the European Investment Bank and the other existing Financial Instruments."*

[12] Even though it follows a negative trend (European Court of Auditors, 2020).
[13] Treaty on the Functioning of the European Union, Official Journal C 326 , 26/10/2012 P. 0001 - 0390
[14] Ie. the aims of strengthening the economic, social and territorial cohesion (art. 174 TFEU).

This segment makes implicit that European bodies enjoy a shared competence on Cohesion Policy, thus they can also legislate. The regulations governing the operations of the Structural Funds enter into force via the ordinary legislative procedure of co-decision (art. 177 TFEU). That is, the Commission proposes legislature and the Council along with the European Parliament approve, suggest amendments or reject the bill. The Parliament has gained more control over the enactment of legally binding provisions on Cohesion Policy as a product of the Lisbon Treaty which overwrote article 161 TEU with article 177 TFEU. In fact, the co-decision procedure is applicable also to executive decisions, especially for the European Regional Development Fund as set by article 178 TFEU (Kalavros & Georgopoulos, 2013).

The Common Provisions Regulation 1303/13 is the regulatory text which regulates the whole of operations and functions about the Structural Funds during the 2014-2020 operational period[15]. Nevertheless, each of the funds has more specific provisions[16] which take into account their characteristics. However, it must be mentioned that the regulatory framework is applied throughout the operational period and is then replaced. To replace it, past implementation experiences are factored in, thus creating a dynamic legislature which, on the flip side, causes legal uncertainty (Davies, 2013).

Apart from the formal regulatory framework, there is a plethora of soft law provisions. The Commission, through opinions, communications, guidelines, or reference guides clarifies and specifies how European law should be interpreted and applied by the m-s administrations[17]. This tactic is accommodated by the implementation of Structural Funds since many regional authorities come across many cases where the interpretation of the Regulations is convoluted[18]. The adoption of soft law provisions provides flexibility and adaptability to the communication between the Commission and m-s. However, as informal law, it is not binding to be published in the EU Journal and can therefore cause legal uncertainty. Moreover, its excessive use may also increase the (informal) legislative volume, creating an even more complex legal framework (Brink, 2016).

ii. Basic Principles of Cohesion Policy

Cohesion policy is based on certain fundamental principles-pillars that permeate it at all stages (Bouvet & Dall'Erba, 2010). Special mention needs to be made of the following four that remain at the core of

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[15] The regulations for the 2021-2027 operational period were published in June the 30th 2021, [Publications Office (europa.eu)](#)

[16] Regulation 1301/2013 for the ERDF, 1304/2013 for the ESF etc.

[17] Of course, the competence for the authentic interpretation of EU law is reserved to the European Court of Justice (ECJ).

[18] Inter alia, EGESIF_15-0006-01, 08/06/2015 for art. 41 of the regulation or EGESIF_14-00015, 06/06/2014

the Structural Funds since their foundation and remain in the new Regulation 2021/1060 for the operational period 2021-2027 proving the institutional dimension they have acquired:

A) Principle of Concentration (art. 18 CPR 1303/13)

The principle of concentration has three dimensions. The first of these is the concentration of resources in specific areas and countries, which are most in need and as such are in a worse financial position than their EU counterparts. The second dimension is the concentration of efforts, which ensures that resources will be used on programmes based on certain thematic areas that can improve the development potential of a region. Third, expenditure must be concentrated over time, which means the immediate reimbursement of funds from programmes within the third year after their allocation as required by the rule of decommitment (n+3)[19] (European Commission, 2015).

B) Principle of Programming (art. 26 CPR 1303/13)

A key concept of cohesion policy is its adherence to a holistic approach of the preferred investments. In particular, the Structural Funds do not fund individual projects on the basis of single applications but rather operational programmes which have in fact a multi-year orientation and aim at accomplishing specific goals that have been structured at a European level. The principle of programming assists the m-s in order to completely transform themselves structurally, placing them on a development path.

C) Principle of Partnership (art. 5 CPR 1303/13)

As the rule of proportionality (art. 5 § 4 TEU) and subsidiarity (art. 5 § 3 TEU) refrain the EU from acting in areas where it lacks exclusive competence, ie not mentioned explicitly in the Treaties, the Structural Funds are based on the concept of Partnership. Namely, at every stage of programming there is a constant conciliation between European, national, and regional authorities. A common phenomenon in the conciliation process is the involvement of social partners or civil society stakeholders.

D) Principle of Additionality (art. 95 par. 2 CPR 1303/13)

The role of the principle of additionality lies safeguarding community funds, as it stipulates that financing the Structural Funds *"shall not replace public or equivalent structural expenditure by a*

[19] In the past it was n+2, see also art. 136 of the CPR 1303/13.

member state". This measure prevents the managing authorities from choosing politically motivated projects and instead urges them to promote programs that provide multiplier benefits.

iii. The Policy Cycle

Like any other policy, Cohesion Policy is characterized by a sequence of procedures that must be carried out effectively in order to ensure the system's functionality. The policy cycle starts with the direction stage of a programme, continues with the stage of programming, followed by the implementation stage, and ends, finally, with the monitor and evaluation stage (figure 1) (OECD, 2020).

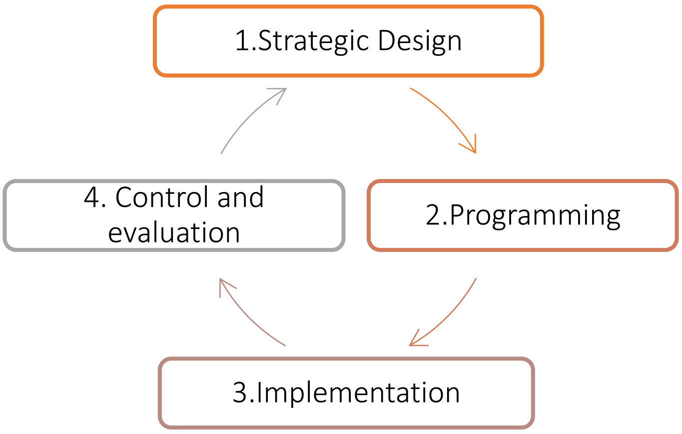

Figure 1 – The Policy Cycle (Figure from OECD, 2020)

In every step of this process, three vertically organized systems of government, which interact with each other on the basis of the principle of partnership, are identified as shown in figure 2 (Davies, 2013; European Social Network, 2014).

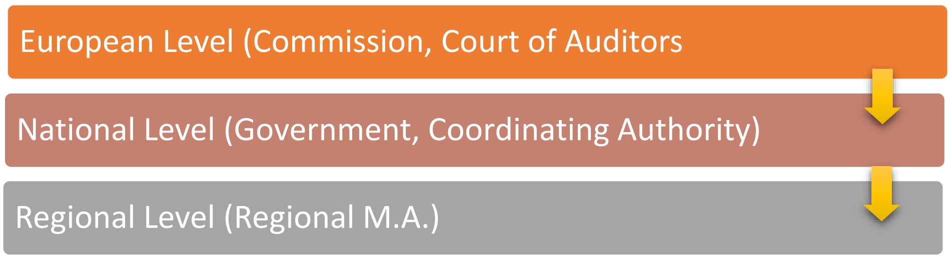

Figure 2 – Vertically organized levels of governance (figure from Davies, 2013)

- Direction Stage

The European Commission is granted the general direction of the Structural Funds. Its main responsibility is to recommend the budget to be allocated as well as to exercise the prerogative of legislative initiative, adopting regulations or other binding texts that surround Cohesion Policy. The total amount which will be allocated to a country or region depends to a large extent on the category in which the latter belongs as, according to the Commission, there are objective indicators that determine which region needs more support[20]. Nevertheless, it is observed that these indicators do not explain completely the distribution of funds but rather just a part. The rest, is negotiated at the Council of the EU in a two- and three-level negotiation game (Bodenstein & Kemmerling, 2011).

A handful of scholars have been interested in the resource allocation phase, especially within the framework of institutional analysis. Charron (2016) argues that when there is room for negotiations, the regions with the highest score on the governance index (EQI[21]) tend to receive higher amounts. This is because the Commission is incentivized to allocate resources in areas where the latter are more likely to be absorbed. On the other hand, Delmuth (2011) claims that the institutionally weakest regions will receive more resources if they have proved to manage them efficiently, based on the experience of previous operational periods. In any case, it is clear that the role of the Commission and especially the role of its relevant directorates, is crucial for the allocation of community resources. Besides, DG REGIO is one of the Commission's directorates to enjoy a great level of administrative and economic independence (Stephenson, 2016).

- Programming Stage

Once the total amount that every m-s will receive is finalized, it is up to the national governments to plan how it will we used. Based on the principle of programming, this procedure lasts for a reasonable amount of time and is usually completed in the first year of the operational period. The relevant operational programmes are designed after a thorough consultation with a handful of national and regional stakeholders such as pressure groups and other civil society representatives (unions, associations, chambers). The entirety of operational programmes is then negotiated with the European Commission with the ultimate goal of reaching an Association Agreement (European Social Network, 2014). This agreement, apart from deciding the programmes and the objectives for each state and region, must also include the bodies which will manage the community funds (Molle, 2006).

There are three relevant bodies: The Managing Authority, the Certifying Authority and the Audit Authority. Each of them, has a distinct but equally important role over the process of utilizing the community funds. It is a common practice to set up new directories within ministries or other local authorities to ensure the continuity of administration (Stephenson, 2016). At the same time, this practice safeguards the monitoring of the absorption process, thus allowing administrative supervision.

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[20] Such as the GDP or the employment levels (Zaman & Georgescu, 2014).

[21] European Quality of Institutions.

However, this prevents the creation of organisations with specialized knowledge and experience in the field of cohesion policy, a situation which is exacerbated when these services are not staffed by technocrats but rather officials vulnerable to political pressure (OECD, 2020).

- Implementation Stage

The Association Agreement is then followed by the implementation phase which lasts for a longer period of time than the operational period. This is partly because the rule n+3 applies, ie the ex officio decommitment of funds from an investment that has not used funds according to the set timetable and for an additional three years, and secondly because of the frequent phenomenon of granting extensions or rewarding regions that have effectively absorbed funds. It is obvious that these rules incentivize both the public authorities and the beneficiaries to follow their set timetables. Nevertheless, it emphasizes the need for timely use of resources instead of their quality utilization. It is observed that the criteria for choosing a project are more flexible at the end of a time period as a means to avoid the decommitment of funds (Stephenson, 2016).

The general management of the individual programmes of the Structural Funds is done by the Managing Authority. Alternatively, it is possible for specific responsibilities to be assumed by an intermediary body, which may also come from the private sector[22]. This facility is provided due to the complexity and size of duties that the Managing Authority has to attend to. In particular, they are the ones that set in motion the public procurement process for selecting the investments achieving the set objectives, from its launch through the notice of competition until its award. Secondly, they take on the role of mediator between the region and other interested parties or between the country and the European Commission. It is of crucial importance to record all the selected projects, their progress and their achievements in the Implementation Report that is filed annually to the European Commission (Ferry & Polverari, 2018).

Next, the beneficiaries proceed with the implementation of the projects they have undertaken. However, under the additionality rule, the beneficiaries do not have the money to carry out the necessary transactions. As such, there are three different types of financing: interim payments, pre-financing and the final payments (art. 76 CPR 1303/13). Most of the funding consists of the latter. Therefore, selected projects must have secured funding from a public body or banking institution. To assist the programmes in this effort, there is a set of financial instruments, proposed directly by the EU (Title IV, CPR 1303/13). Funding by the Structural Funds is expedited only when the beneficiary

[22] For example, art. 36, 48, 123 CPR 1303/13

provides proof of the payments made, which are then validated by the Certifying Authority and then submitted to the European Commission.

- Monitor and Evaluation Stage

Monitoring the implementation of cohesion policy is carried out at two levels. At the local level it is facilitated by the Audit Authority, which must be institutionally and functionally independent from the other two bodies involved in the whole process (art. 123, CPR 1303/13). Its responsibilities include the monitoring of individual projects and ensuring the proper functioning of the other managing authorities.

Meanwhile, at the European level, the role of the European Court of Auditors is worth mentioning[23]. This audit is aimed at answering three questions – whether the amounts declared were actually disbursed, whether the amounts were used in accordance to the set rules and whether the amounts were utilized effectively (Ferry & Polverari, 2018). In this way it detects errors of the managing authorities which do not result just from mismanagement but also human errors. Cohesion Policy is characterized by a large amount of errors in relation to other policy areas (Ferry & Polverari, 2018). If there is suspicion of embezzlement, the case is referred to the European Anti-Fraud Office (OLAF) (Wostner, 2008). Figure 3 outlines the full model used by the EU to safeguard the quality of utilized community funds.

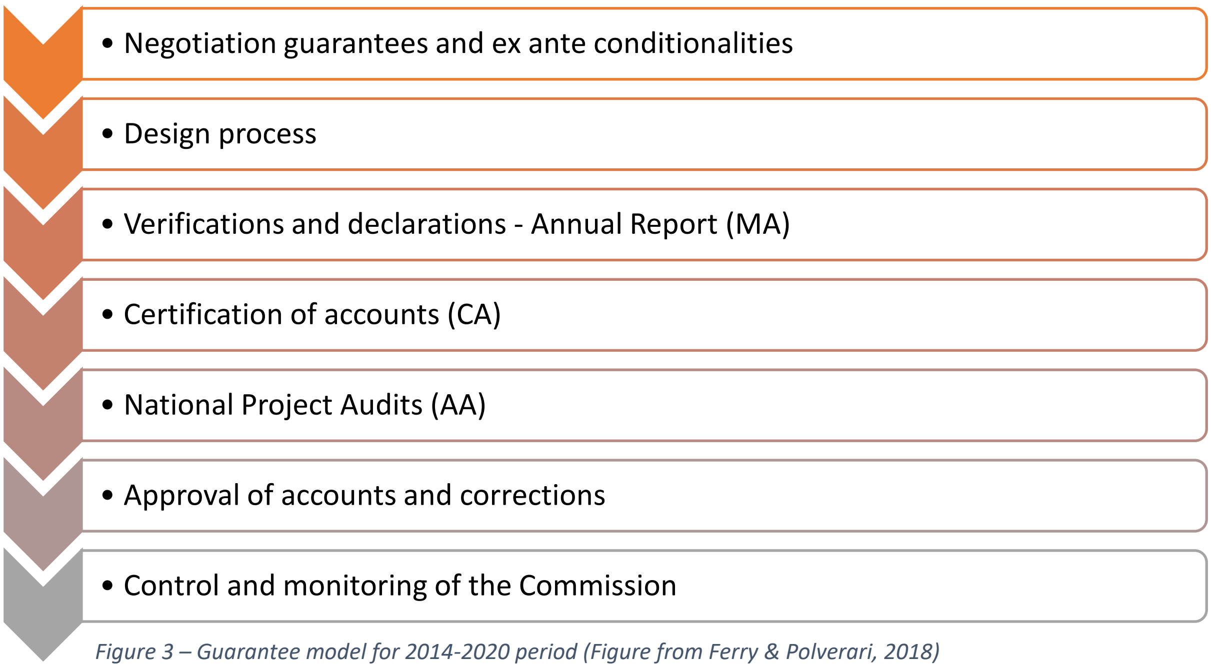


Figure 3 – Guarantee model for 2014-2020 period (Figure from Ferry & Polverari, 2018)

[23] In fact, the creation of the Structural Funds necessitated by itself the establishment of the European Court of Auditors (Stephenson, 2016).

The effectiveness of the audit lies in the speed with which it is carried out and bears fruit. That is, it should be timely. This need emerges from the fact that a quick and quality audit permeates corrective actions to dodge aggravating measures or to minimize any negative effects. In addition, this monitoring must assign the blame and oblige those responsible to compensation, so as not to burden the public (Ferry & Polverari, 2018).

The last part of the policy cycle is evaluation. As the Structural funds are frequently criticized for their inability to produce tangible results, this phase is the most critical in underpinning their contribution to the European economy (Wostner, 2008). New Public Management theory suggests the establishment of indicators that reflect the achievement of certain predetermined goals. Although useful, this tactic can lead to a performance paradox, where indicators are transformed into goals themselves and a project revolves solely around achieving them. Furthermore, this method hampers the detection of the causality in relation to the effect of a certain programme. Its main disadvantage, though, is that it is based on a clear and precise set of objectives which is not ensured when different jurisdictions and legal provisions clash (Polverari, 2016).

As a result, the European Commission has proposed two new systems of evaluation over the last operational period. The first is Theory-based Impact Evaluation which tries to identify the weak links of a project through triangulation via interviews, theory analysis and other means. The second method is the Counter-Factual Analysis where two samples are separated based on whether the evaluated programme took place there or not, thus detecting the resulting differences (Polverari, 2016).

Both methods provide a groundbreaking way of assessing cohesion policy. However, their relative complexity requires the existence of quality and effective institutions which have at their disposal both the human resources and technical means to carry out such analysis.

2.4 Institutional difficulties of Cohesion Policy

As evidenced by the analysis above, the process of implementing Cohesion Policy is a demanding undertaking for any managing authority. This is not to say that an efficient and complete absorption of the incoming community funds is impossible. A series of studies, interviews and pilot projects, are taken into account by DG REGIO in order to identify and correct the areas which hinder its implementation (Ferry & Polverari, 2018). At the core of this analysis are the central or regional managing authorities as their crucial role as a mediator between the European Commission and the final recipients is recognized (OECD, 2020).

The main source of problems for the competent authorities is the regulatory framework. Complex regulations extend from the national level up to the European, composing a grid which is difficult to comprehend and even more difficult to implement. Frequent amendments to these rules, even if aimed at simplifying and resolving specialised cases, do not facilitate the role of the Managing Authority. On the contrary, they create an insecure investment climate and deter possible beneficiaries, further blurring the whole procedure (Dianeosis, 2016). This complexity emerges, however, mainly by the sear amount of regulations and by their duality as both European and national rules rather than from their quality (Bache, 2010).

This situation is understandable since the regulatory framework within which managing authorities operate is not determined by them, but centrally either at national or European level. The involvement of these authorities is deemed imperative as they will be the ones called upon to apply these rules. Therefore, the communication of these bodies with their national or European counterparts should acquire an institutional base. OECD (2020) notes that communicating with the European Commission is considered very important for the Managing Authorities. Local bodies treat the Brussels-based institution as a party which is distant and unaffected by their everyday needs. The aim is not for just the creation of a formal communication channel but to develop informal relations that will bridge this gap. Thus, the Commission's directorates will better comprehend the managing authorities' problems and, moreover, create a framework of constructive criticism and best practices interchange.

Apart from European Regulations that rule the Structural Funds discussed previously, Managing Authorities are also faced with two other critical areas of friction. Firstly, there is the framework of state aid, which prohibits the transfer of public resources to companies, thus creating a competitive advantage (art. 107 TFEU) (Kalavros & Georgopoulos, 2013). Even though derogations to this prohibition exist (art. 107 § 2 and 3 TFEU), and the presumption has been reversed in the General Block Exemption Regulation (Regulation 651/2014), the competent authorities must have the necessary administrative capacity so that these provisions are not violated.

The second area is that of public procurement (Bachtler et al., 2018). These rules cover the notion of competition, selection and award of public projects that are used to transfer European resources to the final recipients. Despite the Directive 2014/24/EU setting common rules for an array of public procurement[24], the legal framework remains largely differentiated within the m-s, adding administrative costs and legal uncertainty to beneficiaries.

The above, make obvious the need for strategic planning by the coordinating and managing authorities. This design should be reflected in the operational programs as to facilitate the action of local authorities from the start of the operational period. Otherwise, the lack of planning may lead to projects overlapping and henceforth duplicating the funding of public bodies with both European and national projects. In addition, the lack of certain methodology for including and excluding projects can result in the selection of programmes which have not yet matured in their conception and as such their implementation may be significantly delayed (Dianeosis, 2016).

The term Smart Specialisation has been a point of reference in recent years for the formulation of strategies in the context of cohesion policy, gaining positive reviews (Hunter, 2017). Strategies of Smart Specialisation are an innovative conditionality of the recent 2014-2020 operational period. They aim to create strategies that will be place-based and take into account the special needs for economic development. However, the concept itself raises doubts over its exact meaning and in particular distinguishing it from the concept of diversification (OECD, 2020).

Place-based policy is grounded on the hypothesis that all regions have potential of economic development. Therefore, if there is an objective chance for improvement, these regions should identify their structural weaknesses and emphasize their strenghts with projects that will be based on their specific needs. Of course, the dynamic nature of the economy makes the formulation of such policies a demanding task especially if it is undertaken by authorities in regions already in a vicious cycle of poor governance and low economic returns. The hindrance in introducing a place-based policy arises when evaluating its results. That is because indicators and other data that can enable an appraisal based on inflows and outflows are not widely available (Zwet et al. 2017).

Scholars have detected at this point the lack of "place leadership" (OECD, 2020). In particular, they discuss about the absence of an individual or an organization that will be responsible for resolving disputes and finding common ground between heterogeneous interests and thematic priorities. The need for place leadership emerges when there are policies which are ex ante participatory and open to collective resolution. Thus, the "place-leader" must have the ability to act collectively rather than to act. Pilot projects, so far, in Finland, Germany and Italy have identified three key characteristics for the concept of "place leadership" (OECD, 2020). Those are:

[24] Regarding public procurement over a financial threshold (see art. 4 of Directive 2014/24/EU)

1. "The importance of alliances between professionals at local and regional level with simultaneous accountability and external representation by political leaders to manage public opinion

2. Emphasis on border expansion which means that important organizations are willing to talk and participate in joint actions outside existing networks

3. The need for leadership to be embedded with the culture and conditions of the region and the communities to which it applies."

The development of fertile ground for the emergence of local leaders can have a positive effect on cohesion policy, which by its very nature is a participatory process where a multitude of players with often conflicting interests operate and serve as a model for multilevel governance (Bache, 2010).

In addition, such a move would help address another problem for the managing authorities. As the latter belong to the wider public sector, they face the same organizational and operational legal framework as any other public body. However, this framework does not necessarily suit organizations that have a predetermined scope of responsibilities and are even subject to frequent administrative scrutiny through the mandatory submission of reports. Time-consuming procedures related to human resource management or certain bureaucratic obligations such as the multiple completion of identical documents for use by different bodies, are some of the most typical examples of obstacles placed in the daily operation of managing authorities (Bachtler et al., 2018).

The situation described reasonably results in a formalistic and bureaucratic culture within these organizations. It is a fact that the process of absorbing Community funds for historical reasons has been constructed with the logic of risk aversion (OECD, 2020; Wostner, 2008). After all, there is considerable scope for error or waste of Community funds. However, insisting on adhering to the regulatory framework may prevent coordinating or managing authorities from designing a more strategic stance in relation to the results targeted through operational programs. In addition, there are insufficient incentives to test innovative methods and tools for selecting and evaluating different investments. The lack of self-confidence that characterizes them has a negative effect so that institutional autonomy is not created. After all, their role is extremely important for the successful utilization of the Structural Funds, which would give them a greater role in the policy-making process.

In conclusion, those responsible for managing Community funds face several challenges arising from the wider institutional environment that are presented in Figure 4. These challenges make clear the need for an institutional management framework that can counter them, or in other words a higher quality of governance.

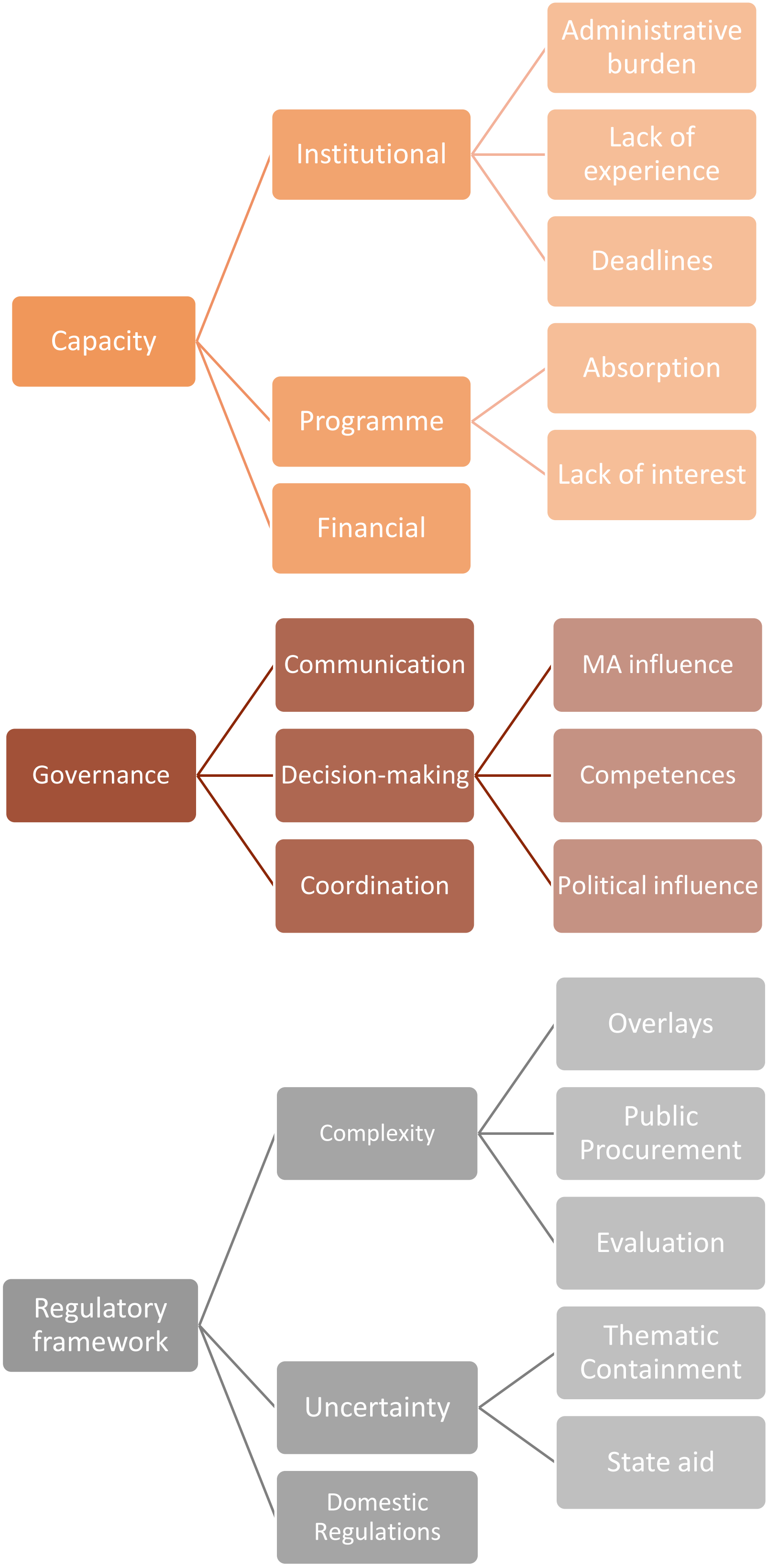


Figure 4 – Problems of the implementation process of cohesion policy (Figure from Zwet et al., 2017)

3. Institutions and the absorption of community funds

3.1 How to assess the quality of government

The term "quality of government" is included in the concept of both formal and informal institutions which determine the way in which power will be exercised in a state. Adequate and quality governance is also incorruptible, impartial and effective (Rothstein & Jan, 2008). According to the European Commission (2017):

> *"High quality institutions can be defined as those which feature an absence of corruption, a workable approach to competition and procurement policy, an effective legal environment, and an independent and efficient judicial system. [...] strong institutional and administrative capacity, reducing the administrative burden and improving the quality of legislation"*

Setting up effective institutions demands, therefore, a cumulative achievement of goals and the observance of best practices in a series of sectors, thus creating a holistic system of governance which encompasses all three state powers – legislative, executive, and judicial.

The interest for quality of government is based on an exponentially growing series of research, where it is described as having a positive correlation with economic development, quality education, health services etc. At the same time, it is a catalyst for regional competitiveness, improving the social welfare (European Commission, 2017; Ketterer & Rodriguez-Pose, 2016). More crucially for cohesion policy, quality of institutions is a key determinant for either domestic either foreign direct investment (FDI). Low quality institutions increase the cost of investments as they add transaction costs or reduce profit margins (Rodriguez-Pose & Garcilazo, 2015). Cohesion Policy itself can be understood as an investment – foreign or domestic – since the funds received come in part from the Community budget and partly from state funds or the private sector (European Commission, 2017).

The "Public Sector Efficiency" evaluation method which uses inputs and outputs, has grown in importance for the successful provision of public goods and services by public administrations (Afonso et al., 2005). This method is assisted by the quantification of institutional quality by various indicators. The latter is accomplished by a series of surveys and interviews of the public, policy makers or just public sector employees. Such an indicator is the "Perception of Corruption" of the World Transparency Organization[25]. A more detailed indicator is that of the World Bank on Global Governance (WGI), which consists of four pillars that determine the quality of government. These are

[25] 2020 - CPI - Transparency.org

the control of corruption, rule of law, government efficiency and accountability (Charron et al., 2014). Most EU countries top such lists, reflecting the relatively high level of institutional framework on the continent. After all, institutional stability is one of the Copenhagen criteria which dictate the conditions for the accession of a third country to the EU (Charron et al., 2014).

However, these positive reviews cannot explain the different growth or unemployment rates observed in specific regions of the m-s (European Commission, 2017). Suggesting that such a phenomenon may be explained by the regional institutions in these areas, Charron et al. (2014) have constructed a new indicator that specifically addresses governance in European peripheries (EQI)[26]. The three pillars that constitute the quality of regional governance have been greatly influenced by the World Bank data, and are the level of corruption, impartiality and efficiency of public administration.

Corruption is defined as abuse of power for personal gain. Therefore, the concept includes not only the financial consequences of public fund embezzlement but also the social ones. After all, the publics' perception on local government corruption is inversely proportional to the trust the latter enjoy (Charron et al., 2014) An authority which does not provide guarantees of fair use of public funds to its citizens may create a repulsive business environment and in extreme cases may result in the loss of state legitimacy and to socio-political instability.

An administration is impartial when it engages with the matters for which it is responsible with objectivity. In particular, it must act on the basis of what is set out in its policy or regulation and not on the specific characteristics of the citizen. Government impartiality is frequently connected to the level of professionalism and extroversion. These concepts focus primarily whether public officials act with professional rather than political criteria and secondly on the way they handle and communicate with the private sector (Dahlstrom et al., 2015).

The third pillar – efficiency – is the most intangible. One of the preferred definitions is that of a sustainable governance, ie one capable of accomplishing long-term objectives without taking into account its composition. Along with the results, the ability of the government to manage and implement individual policies, reforming them, if necessary, is also monitored. Thus, this concept fulfils greatly the logic of inputs and outputs used by the Public Sector Efficiency method.

Charron et al.'s (2012) indicator manifests the high variation between European regions. In some cases, the score gap in governance withing some countries is greater that the distance between countries

[26] The European Quality of Institutions index is derived from interviews and public opinion polls or policy makers in regards to three crucial sectors of public administration – education, health care and law enforcement. The results are then combined with the governance data of the World Bank.

themselves. It is worth adding that there are not many differences between the 2013 index, when it was first proposed, until the last measurement in 2021 (Charron et al., 2021)[27]. This finding confirms that despite exceptions, such as Estonia, institutions change slowly (Rodriguez-Pose & Ketterer, 2020).

A plethora of policy makers and other public officials has contributed to the creation of such indicators. Among them are officials of the administrations responsible for utilizing community funds[28]. Therefore, when these authorities are placed at the regional level by the state, one can assume that their quality is directly linked to the broader quality of regional governance (Wostner, 2008). This assumption can be confirmed by the following observations: Firstly, these authorities are legally classified as public bodies, which means that their legal status and organization are determined in the same way as the rest of the public sector. This includes their staffing, where the same rules apply as for regional authorities. It is a common practice of the m-s to staff managing authorities with employees from other public services, via secondment or transfer, especially from the same region (Stephenson, 2016). Likewise, the process of selecting and awarding public contracts to beneficiaries is primarily a public function which is often carried out at regional level. In addition, the locality of these authorities implies that they face the same external conditions as other regional bodies. Thus, local networks, lobbies or the business climate will affect the framework in which a managing authority and a regional one operates (Wostner, 2008). Therefore, since personnel, procedures and the broader environment are common, it can safely be assumed that the quality of governance of a regional authority is the same – or pretty close – with that of the managing authority.

3.2 How to assess absorption

The concept of absorption capacity, as developed in business theory[29], has been used extensively in recent years for states or organizations[30] (Kersan-Skabic & Tijanic, 2017). It is founded on the Europeanization theory, which seeks factors that explain the ability of same states to integrate the "Acquis Communautaire" faster and more efficiently than other m-s (Dimitrova, 2002).

According to Boot et al. (2001) absorption capacity for Cohesion Policy is:

[27] However, the methodology followed in each research was slightly differentiated (Charron et al., 2021).
[28] See also chapter 2.3.
[29] "A firm's ability to recognize the value of new, external information, assimilate it, and apply it to commercial ends" (Cohen & Levinthal, 1990, p. 128).
[30] It should not be confused with the absorption capacity of the EU as a whole, concept which comprises the ability of the EU to integrate new member-states. Relevant bibliography in Smith, 2021.

"the extent to which a member state is able to fully spend in an effective and efficient way the allocated financial resources from the Structural Funds"

Indeed, achieving the objectives of Cohesion Policy lies in the ability of the m-s to take advantage of community funds, otherwise no change would be observed. But how can this absorption be quantified and on what factors does it depend? From the above definition two critical concepts emerge concerning the process of implementing cohesion policy. These are disbursement ("spent") and "allocation". However, the way in which Community funds are transferred to the m-s territory follows additional steps beyond allocation and disbursement. In brief, the state, in cooperation with its regions, reports concisely its planned actions and after the latter have been approved under the Association Agreement, the procedure of selecting the projects which will accomplish these goals begins, committing funds[31]. Lastly, beneficiaries, after carrying out the agreed transaction actions, inform the managing authorities about the amounts spent and the latter proceed to the final disbursement of Community funds.

Thus, three procedures can be distinguished: planning, commitment and disbursement of funds. These three stages of an investment are the tangible object of each report of the European Commission in regards to the state of implementation of Cohesion Policy (European Commission, 2021). These phases also provide the basis for quantifying and comparing the state of absorption in European countries and peripheries. Therefore, three percentages, frequently used to reflect the tangible state of absorption, are obtained (Achim & Borlea, 2015).

First, there is the ratio of committed funds in relation to the ones planned. In particular, this number reflects the ability of the managing authority to specify the operational programmes, proceed in time to the necessary public procurement procedures, evaluating and selecting projects that meet the objectives of the Association Agreement. However, this ratio records the state of implementation at a given time. As such, it cannot explain the velocity with which the above actions were performed or the quality of the selection. This percentage can also be distorted through the procedure of art. 96 par 11 of CPR which provides the option of modifying the operational programme, through the transfer of resources from regions where they are not utilized to areas which have secured most of them. It should be noted that the commitment phase appears to be exponential during the implementation of cohesion policy, ie it begins after the first operational year with small steps and then intensifies, especially during the last years of the operational period (European Commission, 2021). This phenomenon is explained by the fact that public administrations require a minimum time limit to firstly comprehend the new rules and objectives of each period and secondly to inform the local beneficiaries for the new financing

[31] See also chapter 2.3.

opportunities. The augmented commitment in the final years of the operational period is due to a series of pressing factors. Primarily, not utilizing funds from an operational programme means that they can be transferred elsewhere. Thus, the political forces of a region have a strong electoral motive not to allow resources to escape the region (Delmuth, 2011). Additionally, not committing funds indicates that the region has been brimming with resources, which may mean a smaller allocation of funds in the subsequent periods. Finally, the rule of n+3 means that projects which have not disbursed money will be decommitted automatically by the co-financing rule of the Structural Funds, leaving even more unallocated resources, intended officially for the region. To dodge these consequences, managing authorities frequently increase the commitment of resources to various projects over the last few periods. Often, this leads to committing over 100% of resources – in some regions reaching close to 200% - in the hope that some of the selected projects will be completed.

However, there is no absorption of Community funds if they are not disbursed. After all, the achievements of Cohesion Policy go hand in hand with the levels of disbursement (European Commission, 2021). For this to happen, selected projects must proceed with their implementation process using money for purposes eligible for co-financing. Therefore, the ratio of disbursed to planned funds gives a real picture of the state of the Community funds absorption, since it reflects the percentage of resources that has ended up in the real economy. Of course, this relationship does not reveal whether their use was effective, which can only be ascertained at a later stage by the audit authorities and by studying reports from the managing authorities. Also, this ratio demonstrates the ability of a region to use quickly and fully the resources provided, highlighting the existence of a positive business climate.

The amount of resources spent can be also calculated as a fraction with the denominator of the money committed. This explains the aforementioned disbursement rate since it reveals on the one hand the cases where a managing authority increased artificially the level of disbursement by over-committing funds and on the other hand shows whether the ratio of disbursement is low due to reduced demand for investment projects (ie if the first indicator is significantly higher than the second) or due to limited supply of resources from the managing authorities. Thus, it provides information about cases where the design does not correspond to the real needs of an area either in terms of supply or demand. It is obvious that all three ratios are necessary for the comparative analysis of the absorption by the managing authorities, identifying characteristics of different stages in the use of the Structural Funds (table 1)

Committed / Planned	Spent / Planned	Spent / Committed
• Public Procurement procedures • Programme reflecting the regional needs	• Project attainment • Quality of chosen projects	• Explains the disbursement rates • Reflects problems either on the demand or supply side

Table 1 – What different absorption rates reflect.

3.3 Absorption capacity and absorbing from the Structural Funds

The figures described in the previous chapter reflect the state of Community funds absorption at a given time. The term "absorption capacity" lies in the identification of factors that have predetermined the state's or regions' ability to utilize effectively funds such as those of the Structural Funds. Mrak and Wostner (2008) identify four elements that make up the concept of absorption capacity in relation to cohesion policy.

- **Real absorption Capacity**: It refers to the matching of goals to the real needs of the region but also the existence of factors of production who can achieve those goals.
- **Financial absorption capacity**: This term considers the existence of liquidity from both private and public sector for co-financing of the selected projects. Also, it contemplates the cost of capital, with Hapenciuc et al (2013) suggesting that especially for countries who entered the Union after 2004, the market interest rate is negatively correlated with the level of absorbed funds, presenting the high investment cost as a deterrent to the utilization of resources from the Community programmes.
- **Programme/Project absorption capacity**: The designed projects must fulfill the real local needs. That means that competent bodies which ensure project implementation and cope with red tape must exist.
- **Administrative absorption capacity**: This component demonstrates the ability of the public administration to design and implement the necessary procedures for public procurement, evaluation and monitoring of the selected projects.

Another element suggested in the literature is the Macroeconomic absorption capacity, which encompasses how certain macroeconomic indicators (GDP, unemployment rates) affect the ability of a region or country to make use of Community funds. Indeed, Zaman & Georgescu (2014) find that poor macroeconomic performance has consequences such as the low absorption of European resources.

Another perspective of the absorption capacity concept distinguishes between supply and demand. The former includes the institutional framework which manages and allocates funds, while the latter is made up from the beneficiaries who represent the business climate in a certain area and the latter's needs (Kersan-Skabic & Tijanic, 2017).

All of these interpretations identify institutions as a critical concept that influences decisively the ability of a region to cope with the challenges of Cohesion Policy. A series of reports and other papers highlight the link between quality of government and absorption of funds from the Structural Funds (Bachtler et al., 2018; Mendez & Bachtler, 2017). However, this connection is not necessarily proven at the country level as it is possible for countries with poor governance scores to achieve high absorption rates (Bacthler et al., 2018).

However, literature on the importance of institutions at the regional level and absorption is scarce. Charron et al. (2014) suggest regional quality of government as a variable that can explain the different absorption rates in relation to cohesion policy, an assumption that also proposed by Bachtler et al. (2018). According to Charron et al. (2012) there are indications that a region with low quality of government is more likely to misuse Structural Funds resources. Tosun (2014) stresses that among the characteristics that affect the regions capabilities to absorb resources, the institutional framework is of paramount importance. She also uses decentralization as a dependent variable finding that there are indications of negative correlation between fiscal decentralization and absorption of ERDF funds. Grusevaja and Pusch (2011) after linking the level of regional corruption with the development and income effects of the Structural Funds, identify a negative correlation between the two variables.

This paper will attempt to fill this gap by presenting whether there is a correlation between the quality of regional institutions and the absorption of Community funds, putting forward the first hypothesis:

H1: High levels of regional governance are correlated to a high rate of absorbed funds.

The dynamic nature of the Community funds absorption procedure necessitates the introduction of a time dimension in this analysis. The impact of institutions is significant in the ability to design operational programmes and can therefore determine the rapid commitment and absorption of Community funds. Thus, the second hypothesis is as follows:

H2: The correlation between quality of government and absorption is stronger during the first years of the operational period.

The absorption capacity of the public sector does not encompass just its capability to use Community Funds but also the quality with which they are managed. Due to the large number of managing authorities, programmes and beneficiaries, the quality of resource management cannot be quantified by a single indicator. Nevertheless, an attempt to construct such a specialized indicator that will capture the stability of the absorption rate will be made, formulating the third hypothesis:

H3: Better regional governance corresponds to a more stable rate of funds absorption.

Finally, the previous assumptions will be examined at the interior of each m-s. This analysis is based on the high variation of the Quality of Institutions Index, which suggests that if the previous assumptions are confirmed, then it can also be assumed that:

H4: Regions with better absorption, have also the highest levels of governance within the country.

4. Scatterplots and data analysis

4.1 Sample description

A total of 135 observations from respective regions of the m-s were used to verify the above hypotheses. Chosing regions instead of the entire state territory was made for two reasons. Primarily, Cohesion Policy aims at equating economic levels between both states and regions (European Social Network, 2014). In particular, the European Regional Development Fund, which data are used by this paper, focuses mainly on regions. Secondly, European peripheries are the place where these funds will be utilized. Therefore, they are closer to the advantages and disadvantages of each region which, according to the working hypothesis, will influence the absorption of resources from the Structural Funds.

European regions are a result of the administrative structure that each state has decided. However, implementing certain regional policies necessitates a common view for their definition in order to avoid modifications in regional borders for political reasons. Thus, EU, in cooperation with the m-s, has opted for a distinction of European territories in units called NUTS (Nomenclature of Territorial Units for Statistics). These units are three (NUTS 1, NUTS 2, NUTS 3) and serve for comparing statistical figures, making sociopolitical regional analysis, and providing a framework for European policies[32].

Yet, this distinction does not have a catalytic effect on the issue of absorption of Community funds from the ERDF. This is because, as mentioned above, even though m-s are obliged to establish distinct Managing Authorities, they have discretion over their jurisdiction. These authorities are responsible for monitoring the selected projects and reporting to the European Commission annually. This management can correspond to a NUTS 2 level, or can be exercised centrally or can cross the borders of two regions. More specifically, a large part of the m-s has opted not to designate regional managing authorities for utilizing the ERDF, but to designate central authorities instead. Indeed, only 11 out of the 27[33] EU countries have established regional managing authorities.

Apart from these 11 countries (Belgium, France, Germany, Greece, Spain, Italy, Ireland, The Netherlands, Portugal, Poland, Sweden), 5 more have been added to the test sample where due to their size peripheries, do not exist (Latvia, Cyprus, Estonia, Luxemburg and Malta). At the same time, their

[32] Background - NUTS - Nomenclature of territorial units for statistics - Eurostat (europa.eu)

[33] The UK, despite belonging to the EU over the operational period 2014-2020, was not added to the sample since the ERDF funds management was granted in NUTS 0 level regions, which include higher population than the rest of the sample regions.

population resembles the population of an m-s region, thus they can be compared with the existing sample[34].

Of the remaining countries, The Netherlands and Ireland are special cases. In the latter, even though the management of the ERDF was entrusted to regional Managing Authorities, they did not correspond to the NUTS 1 or 2 levels of the Quality of Government Index. Therefore, it was impossible to take into account the absorption levels of these peripheries. Regarding The Netherlands, there are no data about the quality of government in NUTS 1 regions, which were designated for the absorption of the ERDF. As a result, this country was also excluded from the sample.

On the other hand the European Quality of Institutions Index (2021) corresponds to NUTS 2 levels and complements the already existing and more detailed index for NUTS 1 regions (Charron et al., 2014). In the following section, each region was assigned their EQI score based on whether it was a NUTS 1 or 2 level region.

4.2 Methodology

Calculating the main absorption figures, as they were already mentioned, the following formulas were used (I, II, III):

Equation I: $\frac{Committed_n}{Planned_n}$ Equation II: $\frac{Spent_n}{Planned_n}$ Equation III: $\frac{Spent_n}{Committed_n}$

The data used to extract these ratios come from the open data portal of the European Union for Cohesion Policy[35].

The following methodology was used to calculate the stability of the absorption rate: after subtracting the committed amounts within one financial year from the total committed amounts before that financial year (n-1), the remainder is divided by the total amount of committed amounts up to the year of analysis (2020) (formula IV).

$$\text{Equation IV: } \frac{(Committed_{n-1} - Committed_n)}{\sum Committed}$$

[34] The median of the rate of committed funds per capita of the sample regions is 363,14 and each of the above mentioned – except Luxemburg – received a greater amount (Cyprus – 500,12 | Latvia – 1.137,22 | Estonia – 1814,51 | Malta – 855,32 | Luxemburg – 87,16).

[35] Open Data Portal for the European Structural Investment Funds - European Commission | Data | European Structural and Investment Funds (europa.eu)

The quotient is then multiplied for each year with a different coefficient. Weights were selected to address the time dimension of the absorption rate. In particular, there is a qualitative difference between the absorption of funds for example at the 2nd year from the 5th year of the operational period. That is because resources committed early have more time to be utilized before the n+3 rule decommits them. As a consequence, it is more plausible to use them properly. Furthermore, it has to be noted that unused funds entail a cost for the region (namely opportunity costs) since any Cohesion Policy venture would bring profits (tangible and intangible). Therefore, 0.02 is used as a percentage increase per year as it is close to the market interest rate proposed by the EU for the appraisal of investment projects (European Commission, 2014). Thus, the used rates have the form of a penalty in relation to the amounts committed during the last years of the operational period (Equation V).

Equation V: $x \times (1 + 0.02)^1, x \times (1 + 0.02)^2, \ldots.\ x \times (1 + 0.02)^\nu$

After calculating the weighted annual absorption rate, its standard deviation was found to determine the absorption rate up to the reference year.

Equation VI: $\sigma_x = \sqrt{\frac{\sum_{i=1}^{\nu}(x_i - \bar{x})^2}{n-1}}$

Before proceeding to the analysis of the findings, it should be noted that the attempted analysis lacks any econometric value for a number of reasons. First, the objective of this research is to highlight institutions and especially regional ones in relation to Cohesion Policy, and not to identify variables that influence the absorption of Community funds, the subject of many studies (among others Achim & Borlea, 2015; Kersan-Skabic & Tijanic, 2017). On the other hand, the countries whose regions make up the sample, represent half of EU member states, with the majority of the sample belonging to the EU core, so any concrete result would raise questions of representativeness. Finally, given the incomplete stage of funds disbursement at the time of data extraction, the picture painted is incomplete as well and as such insufficient to be the basis of finding causal relationship between the two variables.

This research seeks the correlation between the regional quality of government and the absorption of Community funds. For this purpose, scatterplots were used for each absorption index and the quality of government sub-indices. Trend lines were then formed to find out whether the relationship between the variables was positive or negative. In this way, a concise and comprehensive presentation of the main findings is possible, laying the foundations for further econometric investigation.

4.3 Findings analysis

A first view of the used sample can be presented by calculating the following statistical figures:

Table 2 – Statistical figures of absorption

	Committed/ Planned	**Spent/ Planned**	**Spent/ Committed**
Average	107.4%	53.7%	51.7%
Standard Deviation	28.1%	22.5%	21.6%
Lower Boundary	38.7%	14.6%	17.4%
Upper Boundary	227.5%	208.8%	217.5%

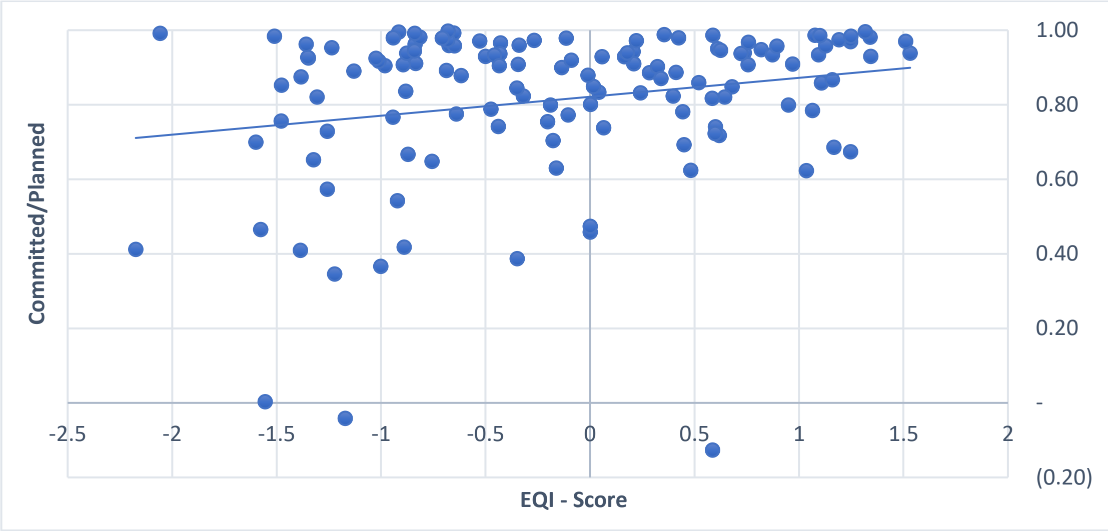
Table 3 shows the differentiation prevailing in European regions in relation to the resources absorbed via the Structural Funds. This differentiation derives from the high levels of standard deviation of the sample for all three indices, starting from 21.6 % percent and reaching up to 28.1 %. At the time of extraction of the data the average percentage of disbursed funds was along the lines of 53.7 %, a rate significantly lower than the corresponding period (ie the 7th year of the operational period) of the 2007-2013 programme which totaled 62.3%[36]. The same statistic figures were calculated for the European Quality of Institutions index (table 3).

Table 3 – Statistical figures of EQI and sub-indices

	EQI	Efficiency	Impartiality	Corruption
Average	- 0.13	- 0.07	- 0.15	- 0.12
Standard Deviation	0.88	0.88	0.96	0.85
Lower Boundary	- 2.17	- 2.52	- 2.33	- 2.00
Upper Boundary	1.53	1.92	1.79	1.52

The index which shows the greatest homogeneity is that of corruption while on the other hand the impartiality index is the most heterogenous of the sample.

[36] A percentage which accounts, however, for the commitment rate in the whole of the EU countries.

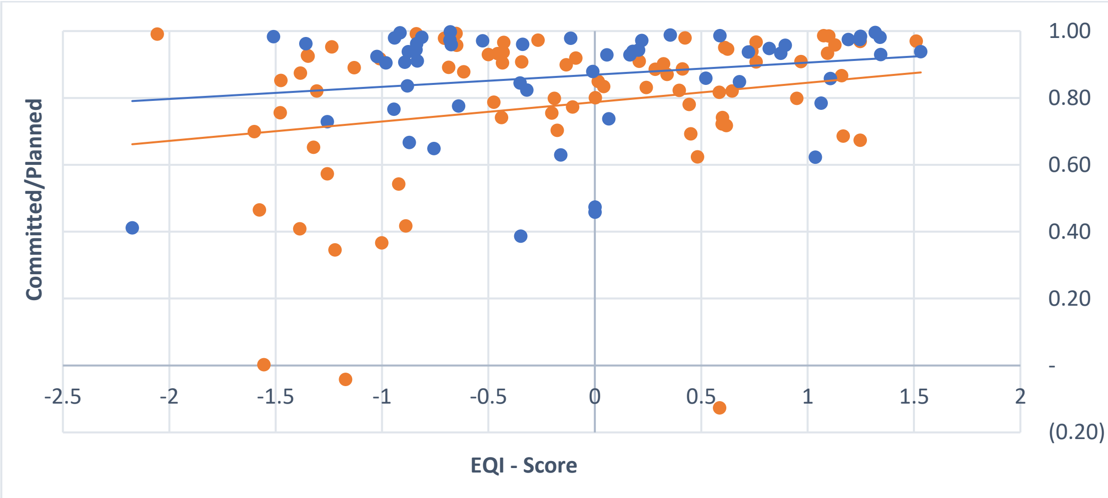


Scatterplot 1 – Committed funds in relation to EQI (2020)

Scatterplot 1 presents the state of funds commitment from the European regions in 2020. Since, especially in the last years of an operational programme many managing authorities commit amounts over 100% (in this case the average percentage of committed funds is 107.8%) a linear relationship between the two variables would provide distorted results. To counter this phenomenon, in the main analysis, regions were evaluated with an upper limit of 100% (or 1.00) subtracting the surplus. This move rests on the assumption that a region which over-committed funds could not absorb them qualitatively. That is because the over-commitment implies shortages either on the demand side, with few interested parties, either on the supply side, due to the design of programmes that did not meet the needs of the area.

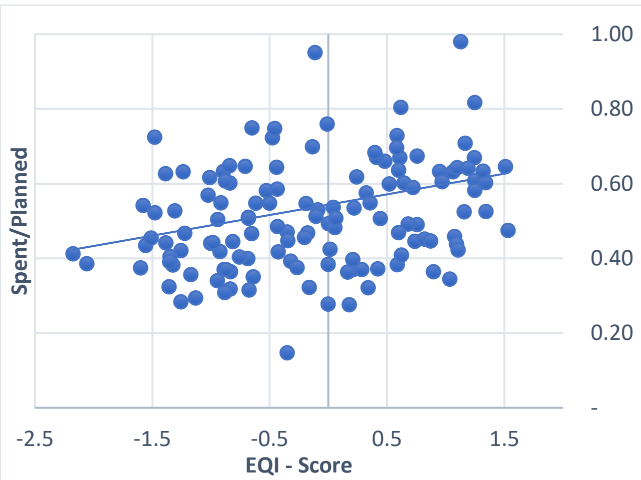
Taking these assumptions into account, it is observed that the majority of regions are close to the goal of full absorption (ie close to 100% or 1.0). It is reasonable that most Managing Authorities, regardless of the region's quality of government, would try to utilize the total of the allocated funds, as the data concern the 7th and last year of fund commitment for the Operational period. Furthermore, there are significant financial incentives, in the sense that a region that absorbs more, has more possibilities to benefit from the chances offered by the Community programmes than leaving unallocated excess funds. Also, a region which absorbs a large amount of resources seems to be taking advantage of the opportunities for its overall improvement, a fact that indirectly strengthens social cohesion. In addition, this is complemented by absorbing more resources since that indicates more possibilities for the development and implementation of innovative projects. Finally, it provides tangible proof of the regions capabilities to utilize the total of the allocated resources. This ability can be later used as political leverage to increase the allocated funds over the next operational period (Delmuth, 2011).

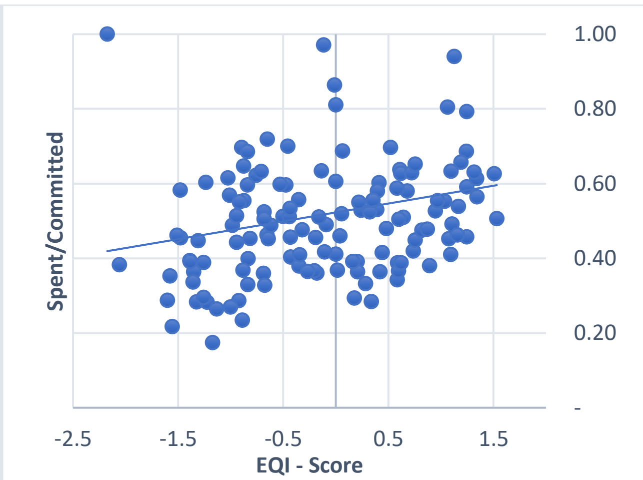
Thus, the correlation between the two variables is at a first glance insignificant. Nevertheless, the trend line is positive, suggesting that regions with better quality of government are more likely to commit funds around 100%.



Scatterplot 2 – Committed rates differentiated by overcommitted (orange dots) rates (2020)

In Scatterplot 2 areas that committed funds over 100% (marked orange) are distinguished from the areas that absorbed under 100% (marked blue). Both trend lines are positive indicating that a region with low quality of government tends to both over-commit funds and under-commit them significantly. However, the trend line's slope is steeper for the first category. In absolute numbers, there is no difference between the total amount of regions that will over-commit and their counterparts that will not, based on the quality of their government.





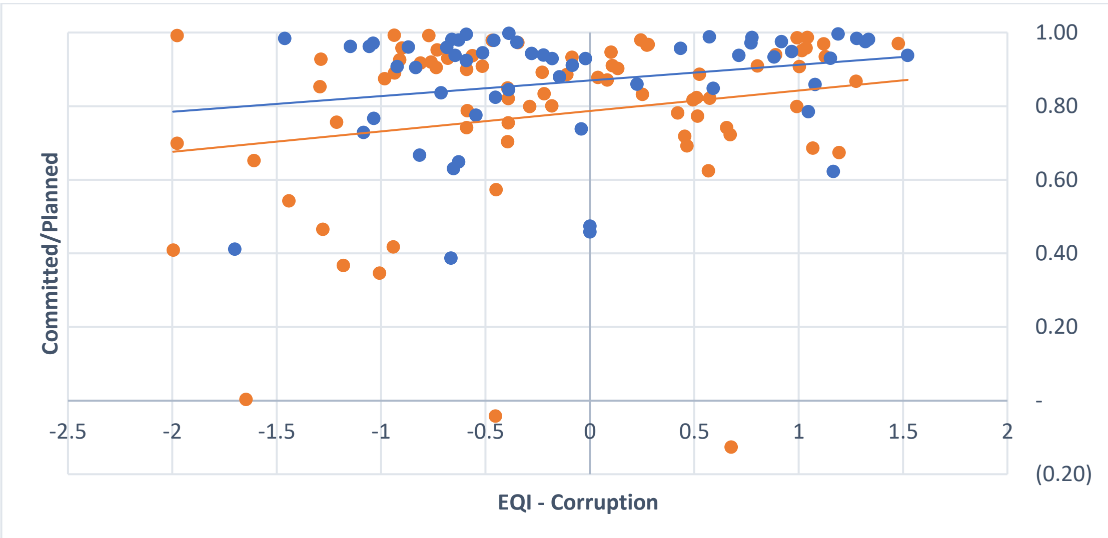
Scatterplot 3 – Spent (planned) rates in relation to EQI (2020)

Scatterplot 4 – Spent (committed) rates in relation to EQI (2020)

Diagrams 3 and 4 examine the two disbursement ratios. Both advocate that there is a positive correlation between the percentage of funds spent and quality of government. This implies that a quality administration has a significant role in selecting the projects that will indeed spend money for accomplishing its objectives.

There are some notable differences between the two categories of disbursement rates. Chart 3 detects an increased homogeneity of regions with a low quality of government score in relation to the rate of spent resources while high heterogeneity for areas with a high score. The situation is reversed in diagram 4. This contrast supports the findings of scatterplot 2, ie that regions with lower quality of government tend to over-commit funds in order to augment the disbursement rates. Thus, the same regions have a higher rate of disbursed funds in relation to planned amounts than in relation to committed. Regarding the highly rated regions, the observed phenomenon may be a result of the broader design that has been achieved or the absorption capacity of the business in the area than the ability of the managing authorities to commit funds.

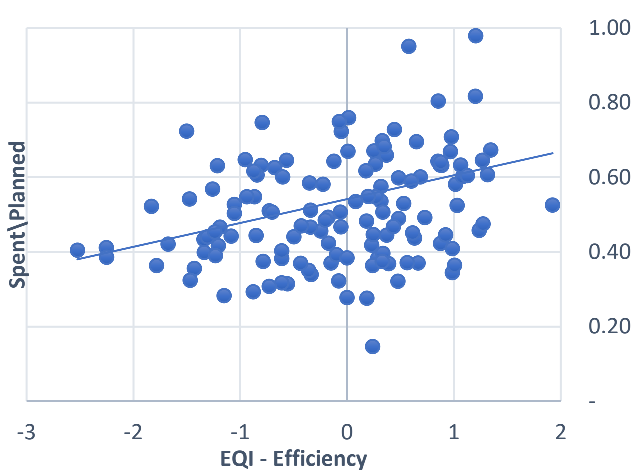
Therefore, regions with a higher governance score will both commit and use a larger percentage of Community resources from the ERDF. The correlation between the two variables is stronger in spent rates, possible due to strong political incentives for the commitment of funds regardless of the quality and quantity of the demand side. On the contrary, disbursement seem to be more related to the quality of government since it concerns not just an administrative procedure but depends on the programme's absorption capacity, the region's liquidity and the real absorption capacity of the beneficiaries to use those funds. These concepts are intertwined with the institutional climate that prevails within a region.



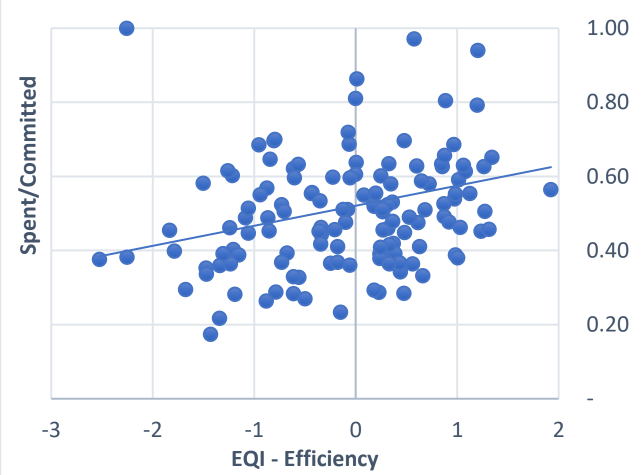
Scatterplot 5 – Committed funds in relation to Corruption sub-index (2020)

Examining the sub-indices of governance, that of Corruption was found to be more correlated with the funds commitment (diagram 5). However, no significant divergence from what was already presented previously in diagram 2 is ascertained. Both orange and blue trend lines follow the same path.

Nevertheless, one difference arises from the increase in absolute numbers of the orange areas (ie those that have committed funds over 100%) on the left side of the scatter chart implying that the regions most likely to over-commit funds are those with low corruption scores. This may be due to the inability of highly corrupt areas to mobilize the private sector with the same speed and ease as other regions, possibly due to a lack of incentives for the latter.



Scatterplot 6 – Disbursement (over planned funds) in relation to Efficiency sub-index (2020)



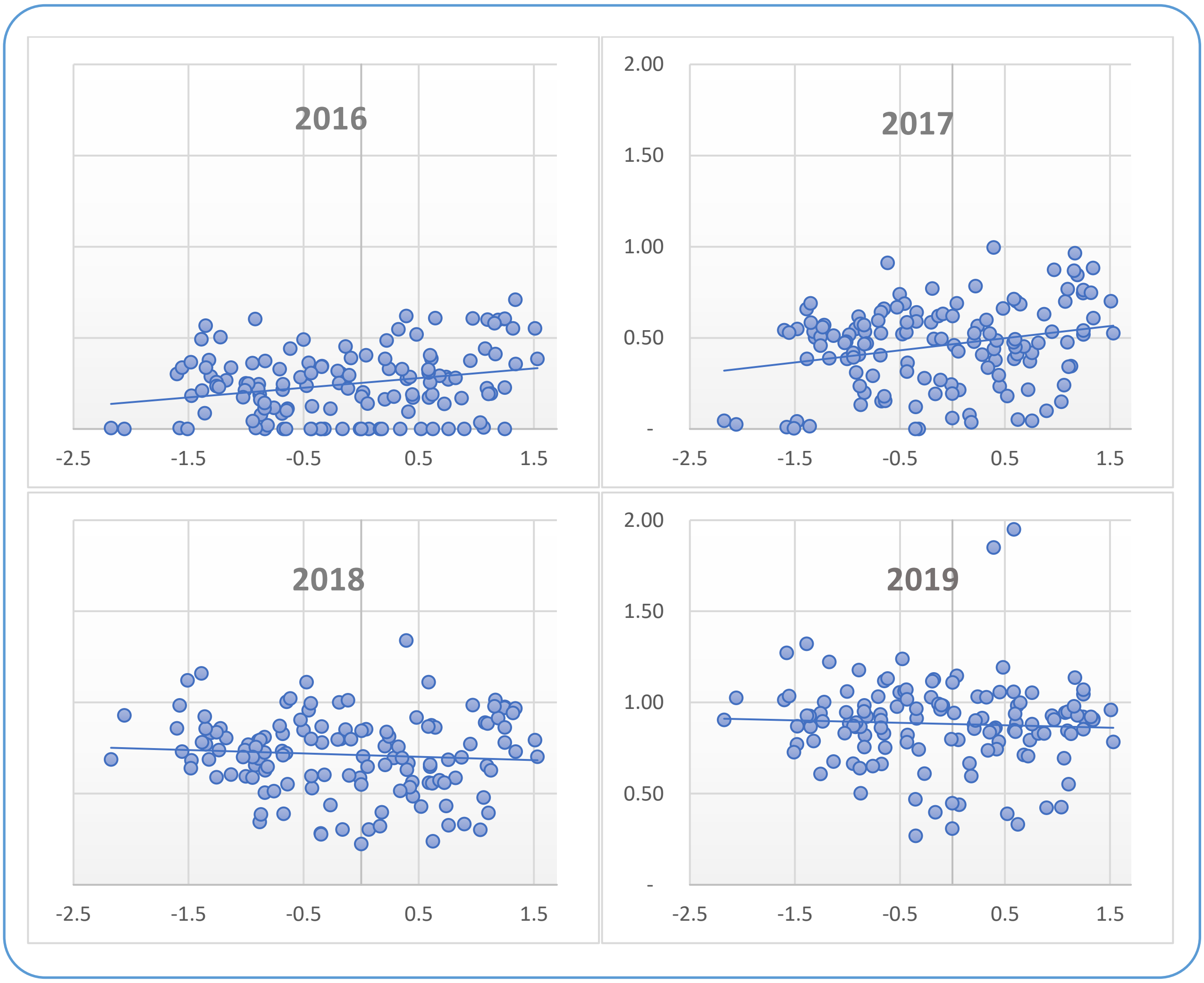
Scatterplot 7 – Disbursement (over commitment) in relation to Efficiency rate (2020)

On the contrary, the spent rate is characterized by a strong correlation with the sub-index of government efficiency (scatterplot 6, 7). In both scatter charts, the trend lines start at 39% in the lower scoring regions and reach up to 65%, presenting the highest correlation yet between the two variables. Since disbursement can be also thought of as an objective that must be achieved, it is reasonable that effective administrations, ie those capable of setting and accomplishing long term objectives, will be placed at the top right section of the diagram. Of course, as the government index receives the highest value in the field of efficiency, it seems that regions which previously did not follow the trend line, were more affected by the corruption and impartiality indices. Nevertheless, they had more efficient administrations, which is reflected with the greater homogeneity of the relative sample.

Therefore, in relation to the commitment of funds, despite underlying the factor of corruption, no noticeable difference emerged, suggesting that all three indices affect the process in the same way. Conversely, the effectiveness index was found to improve significantly the already positive slope of the correlation between institutions and disbursement, downplaying the importance of corruption and impartiality as factors at this stage of absorption. Thus, the first hypothesis about the correlation between institutions and absorption of funds from the ERDF must be confirmed for the spent rates. On the other hand, regarding the commitment of funds the hypothesis can be confirmed partly as to the part of over-commitment.

Time dimension

The above results are derived exclusively from statistic figures of the year 2020, which means that they do not consider the gradual rate of absorption but just photograph at a point of time. For this reason, it is worth investigating the course of the absorption throughout the operation period, that is from 2016 when the projects had one year in full operation until 2019[37]. Before analyzing these data, it should be noted that the presentation of the committed to planned funds is different in this analysis. In this case, the excess of 100% is not subtracted, thus the trend line does not reflect the quality of the funds' commitment but rather just its increase.

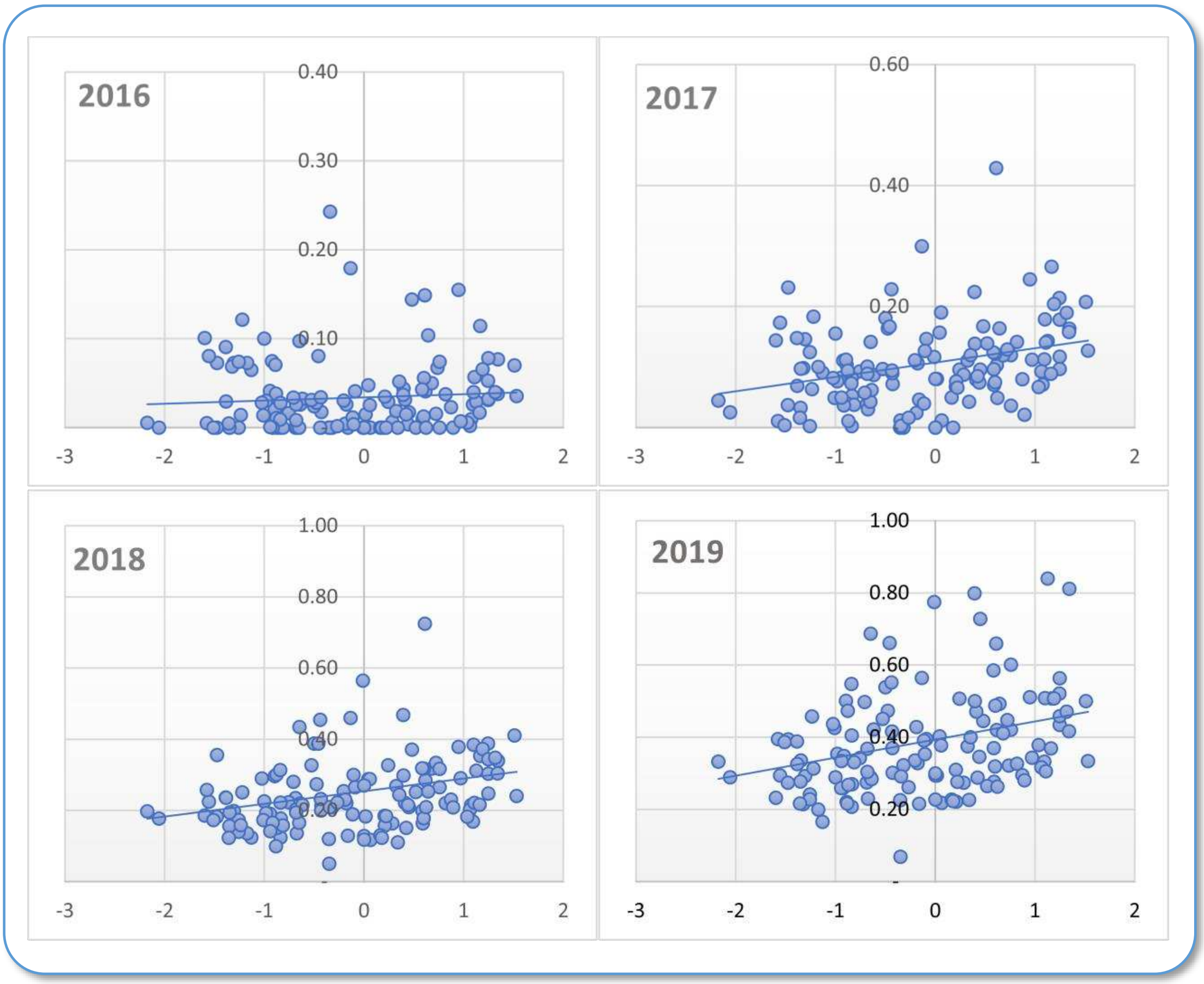


Pl. 1 – Commitment Rates (X axis) in relation to the EQI (Y axis)

Box 1 presents institutions as correlating positively with the commitment of funds especially at the first years of an operational period. However, from 2018 onwards this trend is nonexistent. The first

[37] Given that the total of the Association Agreements was approved by the end of 2014, the real first operational year is 2015. However, since there were minimal actions taken by the Managing Authorities, it is reasonable to start the analysis from 2016.

possible explanation has been proposed previously and refers to the over-commitment rates that distort the trend line. The second reason is the fact that the commitment of funds has greater significance in the first years of the investment period, since larger amounts of committed funds over the first years mean that beneficiaries have more time to implement their projects. On the contrary, over the last time periods, the same process is mobilized by a last-ditch effort to ensure that allocated resources are not wasted.



Pl. 2 – Disbursement rates (over designed) (X axis) in relation to the EQI (Y axis)

Of equal importance are the results from the time dimension analysis for the disbursement rates (pl. 2). In 2016, the trend line is straight, implying that there is no correlation between quality of government and disbursement rates at this stage. Of course, this finding is mainly related to the fact that only one region from the sample achieved a more than 20% spent rate. As more projects come into fruition over the next years, gradually the trend line acquires an increasingly positive slope, with 2019 being a year when this positive correlation is most pronounced. This phenomenon continues, as was already described (scatterplot 3), and indicates that the institutional framework is more closely linked to disbursement over the last years of the operational period, when selected projects should use the allocated resources. Thus, the second hypothesis must be confirmed for the commitment levels, but must be rejected for the disbursement ratio where it is reversed.

The Absorption Rate

Rapid absorption does not equal quality absorption (European Commission, 2021). On the contrary, a steady commitment rate can be a better indicator. The asymmetry of absorption is reflected by the figure of standard deviation of the annual committed amounts until the last sample year[38].

Table 4 – Statistical figures of asymmetry of absorption rate

Asymmetry of absorption rate	
Average	0.14
Median	0.12
Standard Deviation	0.1
Lower Boundary	0.03
Upper Boundary	1.01

A lower rate of asymmetry means that similar amounts were committed annually – given the different value of resource commitment per year of spent amounts via weights (Chapter 4.2). Using the sample data, it is observed that 70% of the regions where asymmetry is below the average, scored over 0.81 in the commitment index, ie neither over-committed nor under-committed funds (figure 2). Conversely, this figure seems to have the opposite effect on the disbursement rates as seen by figure 3 where 61% of the sample evaluated positively for its absorption rate, failed to spend funds more than the average. This phenomenon is partly justified by the fact that regions with a steadier absorption rate had a priori less time to use those funds. However, few regions committed large sums during the first years and thus had more time to proceed on the disbursement stage. These regions are located mainly in Sweden, where much of the commitment process took place during the first three years. Therefore, the inability to disburse funds from areas with a steady rate of commitment raised doubts over the value of this index.

[38] Ie. 2020 which is the last year were relevant absorption data are available at the time of writing.

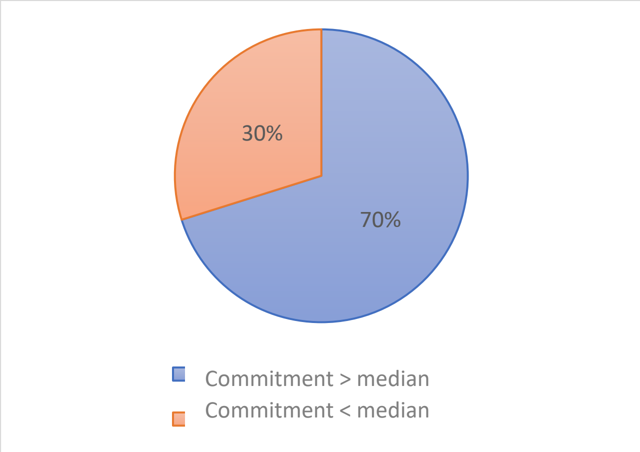


Figure 3 – Asymmetry of commitment rate median and Commitment results

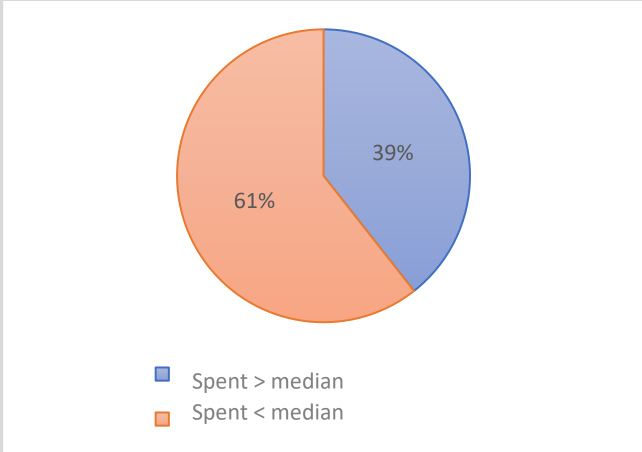
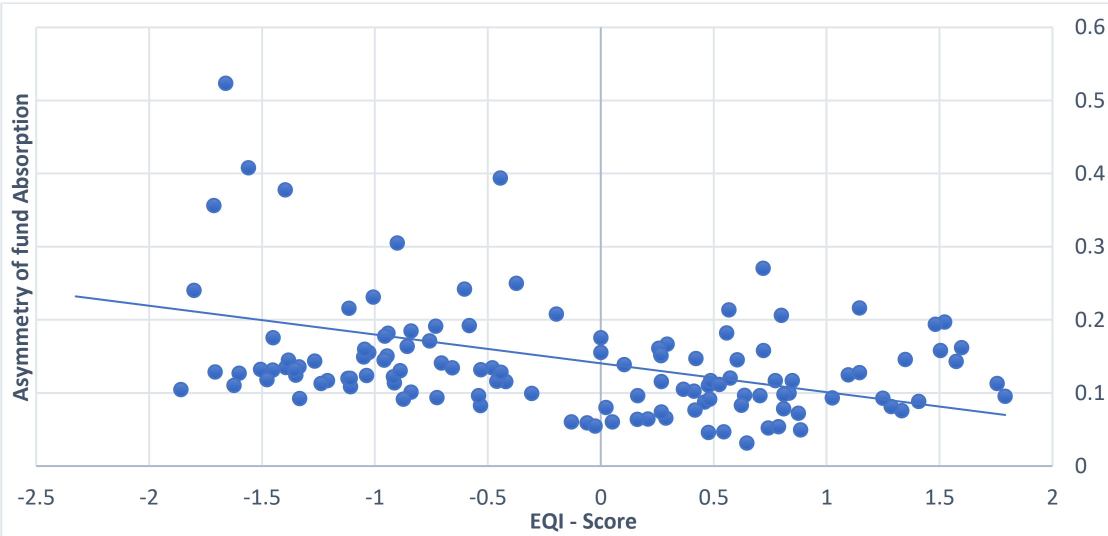


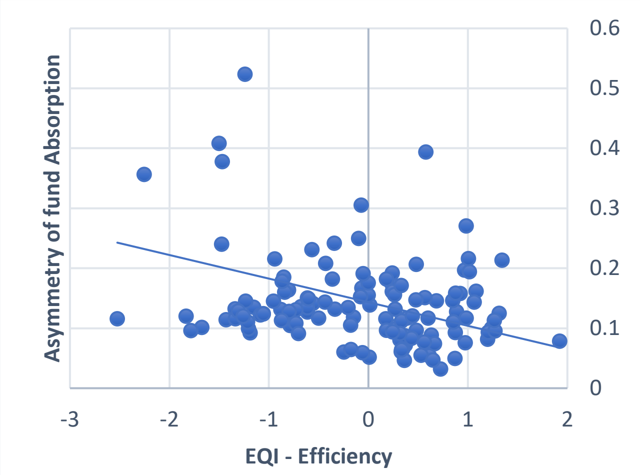
Figure 4 – Asymmetry of commitment rate median and Spent results

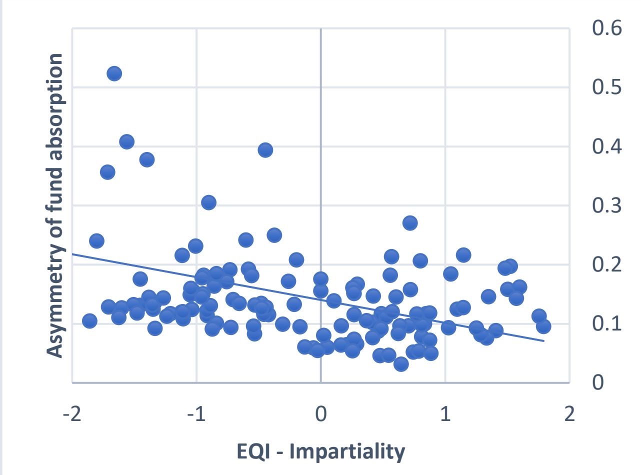
Thus, the asymmetry of fund absorption rate can provide a sufficient index of the absorption quality at least in relation to the final percentage of committed funds. With regard to disbursement rates, this index could present more decisive conclusions at the end of the operational period. In any case, this index alone cannot reflect the quality of absorption as it is possible that sudden economic or other disturbances that temporarily affect the public administration can occur even in regions with capable governments. Moreover, there is no "one size fits all" model and each region can operate with a different degree of discretion based on culture rather than structural deficiencies.



Scatterplot 8 – Asymmetry of fund absorption rate in relation to the EQI

The asymmetry of fund absorption rate is also characterized by a significant correlation with the quality of government (scatterplot 8). The trend line has a negative slope indicating that regions with low quality of government have not been able to meet the needs of resource commitment consistently. Regions with a positive score, almost exclusively managed to achieve asymmetry below 10% (0.1).





Scatterplot 9 – Asymmetry of commitment rate and Efficiency index

Scatterplot 10 – Asymmetry of commitment rate and Impartiality index

Similar findings were obtained at the individual indicators of efficiency and impartiality (scatterplots 9 & 10). Results show that, firstly, an efficient administration is capable of designing operational programmes which will meet the needs of the local community at any time and will arouse the interest of the beneficiaries. Secondly, an impartial administration can commit resources with a greater stability as it is not influenced by political factors or changes in human resources.

Based on the afore mentioned, the third hypothesis – that the greater the quality of government in a region, the more stable is the funds' absorption rate from the ERDF – is confirmed.

The trend within m-s

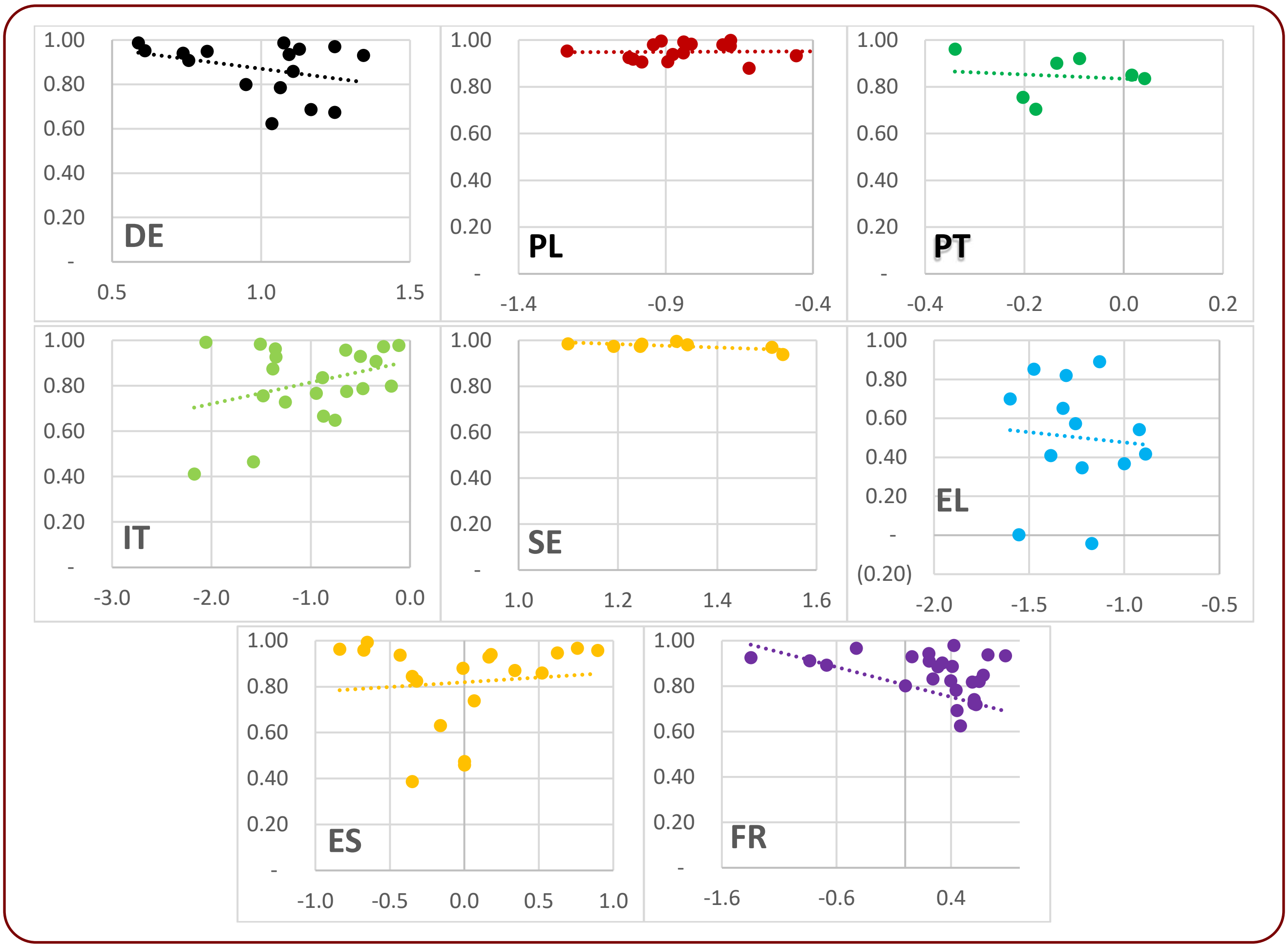
As no regional administration acts with full autonomy but depends, at least to some extent, on the national framework of public administration, it is necessary to consider the trend line for the interior of the sample countries (Gennaioli, et al., 2014). This need also arises from the fact that the domestic regulatory framework also determines the general operations of regional authorities.

Table 5 – Main statistical figures of Quality of Government and Absorption within sample countries.

	Average EQI (Standard Deviation)	Average Commitment (Standard Deviation)	Average Disbursement (Standard Deviation)
Sweden (SE)	1.310 (0.14)	0.97 (0.01)	0.61 (0.05)
Germany (DE)	0.998 (0.22)	0.87 (0.11)	0.56 (0.16)
France (FR)	0.256 (0.51)	0.77 (0.28)	0.59 (0.27)
Spain (ES)	-0.012 (0.48)	0.81 (0.18)	0.40 (0.14)
Portugal (PT)	-0.126 (0.12)	0.84 (0.08)	0.74 (0.55)

Poland (PL)	-0.844 (0.18)	0.94 (0.03)	0.57 (0.07)
Italy (IT)	-0.989 (0.58)	0.81 (0.16)	0.47 (0.17)
Greece (GR)	-1.249 (0.22)	0.50 (0.28)	0.43 (0.08)

The European Quality of Institutions Index (EQI) reveals that there is a great deal of variation in the level of governance between European regions within the Member States. However, some countries are much more homogeneous than others (standard deviation between 12 and 51%). Thus, it should be observed whether the previous results can indeed explain regional differences in the absorption of Community funds or whether they are merely a sample of variation within specific Member States.



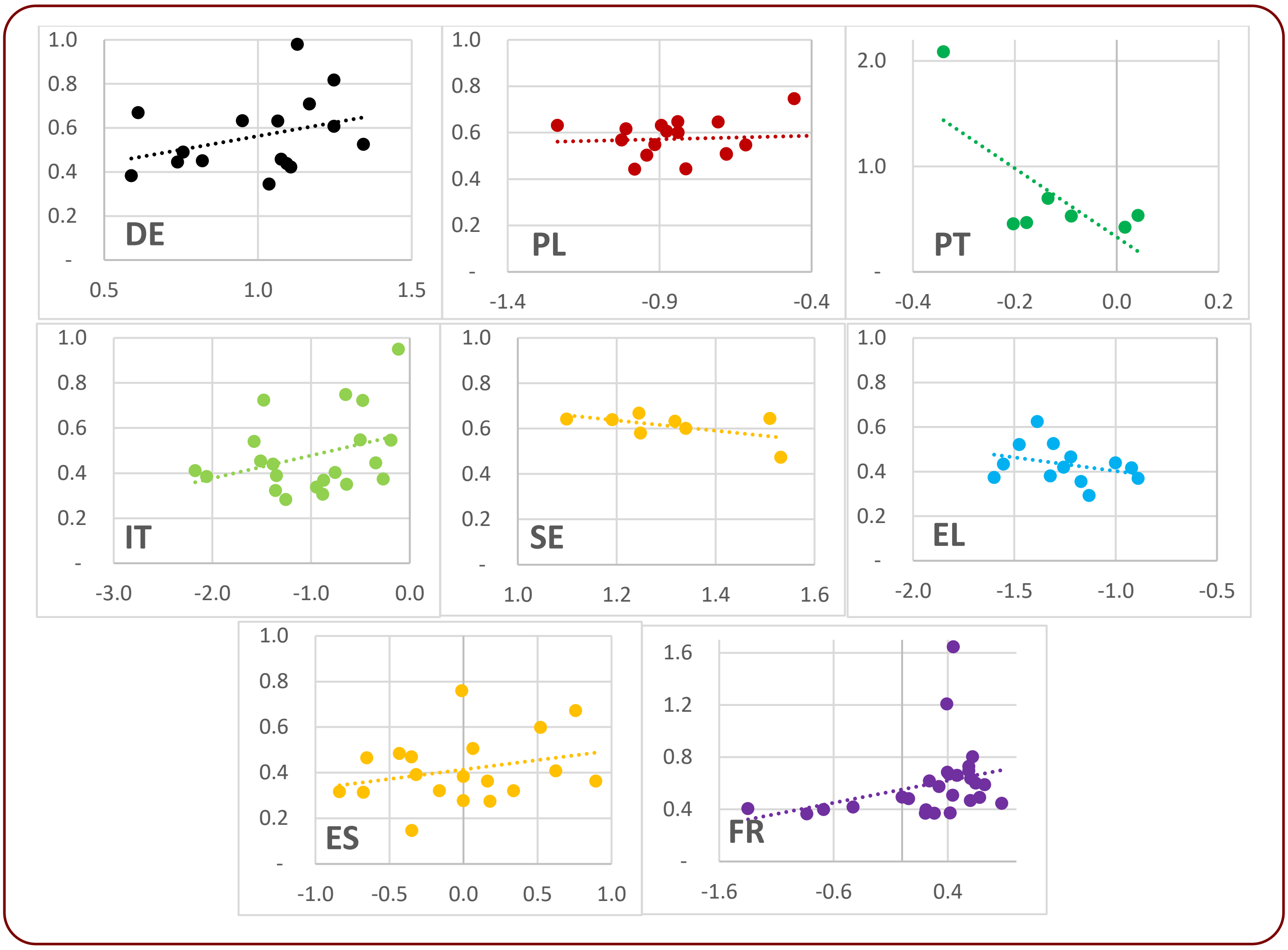
Pl. 3 – Funds commitment (upper limit: 1.00) (Y axis) in relation to the quality of government (X axis)

Pl. 3 represents the internal situation in every MS in terms of resource commitment level, following the methodology used in scatterplots 1 and 2. Therefore in areas where resources are over-committed, the excess amount has been deducted from 100 %, ie the percentage of full commitment of available resources. Yet, in this case these areas are not distinguishable.

From the results of Pl. 3, three critical observations emerge. First, in four sample countries (Poland, Portugal, Sweden and Spain) there is a completely weak, if not non-existent, trend line slope. Indeed, the regions of these countries seem to have committed almost similar percentages, regardless of their level of governance. This may lead to the conclusion that the process of committing Community funds - especially during the 7th year of the management period - is merely of a procedural nature and not related to the level of governance in each region. After all, as observed in scatterplots 1 and 2, the slope of the trend line is quite weak despite being at the same time positive.

Secondly, the negative trend line in regions of the European core countries such as Germany and France, is remarkable. The situation shown may imply the operation of organizations with many years of experience in managing funds. Besides, they manage resources from other sources such as the Common Agricultural Policy (CAP). Such a hypothesis, however, is not confirmed by Italy, which, although also a founding member of the EU, has a positive trend, being the only core EU country where better governance between its regions also meant better commitment of resources.

Thirdly, the case of the Greek regions, where there is the greatest variation regarding the percentages of committed ERDF resources, makes an impression. It should be noted, of course, that most of the regions that over-committed Community funds are located in Greece and in fact in very large percentages (hence the negative values on the Y axis). Therefore, the way in which the commitment of resources is reflected, not distinguishing areas that over-committed resources from those that under-committed, may be responsible for the situation reflected in Greece.



Pl. 4 – Funds Disbursement (Y axis) in relation to the quality of government (X axis)

On the contrary, results which seem to confirm the fourth hypothesis are derived from Pl. 4. As noted in the main analysis, the disbursement sector has the most significant correlation with regional quality of governance (see Charts 3 and 4). Indeed, in countries with the largest standard deviation in the quality of governance of their regions (Italy, Spain, France and Germany), there is a significant positive trend in their trend line. However, even in countries where there is no positive trend line, the correlation between the two variables is not as negative as was observed by the measure of resource commitment (the trend line in Portugal is due to only one region, while the others seem to have disbursed a similar percentage of resources[39]).

Therefore, it is reaffirmed that the disbursement stage is the one that is most closely correlated to the quality of regional governance. This is because the selection of projects, which will use the provided resources without much delay or waste of resources, also reflects the quality of the regional authority involved in the process.

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[39] In fact, if correlated with the sub-index of efficiency, the trend line for Portugal attains a positive slope.

At the same time, it is found that in certain countries the quality of governance does not play a special role in the disbursement of Community funds. In this context, the case of Poland stands out, representing the countries of Central and Eastern Europe. Poland, like the rest of the former Warsaw Pact countries, belongs to the category of countries that managed Community funds for a reasonable amount of time before joining the EU. Thus, the hypothesis that countries which are in dire need of community funds – either as a prerequisite for their integration or because of the importance for the domestic economy, representing a significant percentage of public investment – will proceed to their absorption regardless of the quality of governance is endorsed by this finding. Another explanation underlines the limited contribution of institutions to the development performance of countries in the early stages of economic growth (Ketterer & Rodriguez-Pose, 2016).

Respectively, both Greece and Portugal emerged from a difficult economic decade, which was characterized by support programs for both countries. These events significantly reduced the economic performance of these states. In addition, it can be assumed that, given the economic situation, the regions of these countries were mobilized by the insurmountable need for liquidity and the growth prospects involved in the use of ERDF funds in terms of their utilization rather than by the individual level of government. Of course, even so, the Greek regions have the lowest average resource disbursement to designed rates of the whole sample. In any case, these findings imply the existence of other factors, such as the investment climate or the general macroeconomic situation in a country, which may affect the percentages of spent funds.

As a consequence of the above, the fourth case must be rejected as regards the part of the commitment of ERDF resources and be confirmed as to the disbursement part.

The findings of this chapter underline that regional institutions are of great importance for cohesion policy. Even if their contribution is not decisive, there is a clear correlation with the percentages of Community funds that a region has committed and ultimately used. Their importance is not the same for every stage of the operational period but is probably greater during the stage of commitment of resources in the first periods. As for the disbursement phase, the quality of regional institutions influences the procedure more in the last years. The rate of resource commitment shows a strong correlation with the quality of regional governance, proving that time consistency in resource commitment can help the absorption process. The situation within m-s confirms the above in terms of disbursement, but presents the opposite picture for the commitment rates. It is worth noting that of all the indicators making up the quality of governance index, the strongest correlation was found between efficiency rather than corruption or impartiality. This suggests that cohesion policy has effective measures to tackle both corruption and impartiality, but lags behind in terms of implementation by the regional authorities. In any case, it must be borne in mind that it is questionable whether the absorption ratios used can actually reflect the actual absorption of Community funds and the economic impact they entail.

5. Institutions and the Future of Cohesion Policy

5.1 Institutions and Rule of Law

Institutional quality is entailed in the legal framework of the EU under the concept of the rule of law. Originating from case law[40], this concept lacks a clear and concise definition as its purpose is to be a general principle which will be specialized ad hoc. Nevertheless, it can be distinguished in a formal and a substantive part. The first category includes the existence of judicial control over the actions of both Union and m-s bodies, as well as the observance of the legality principle[41]. The second part consists of respect for fundamental human rights and the principle of non-discrimination[42] (Chrysomallis, 2018).

Respectively, according to the European Commission (2017), quality institutions must be characterized, inter alia, by the absence of corruption, by an effective legal environment, by an independent judiciary, and by strong institutional capacity. Therefore, it becomes clear that the quality of governance constitutes a part of the broad concept of the rule of law.

Improving the institutional capacity and the efficiency of the participating administrative bodies is one of the objectives of the 2014-2020 Operational Period (art. 9.11 CPR). However, this objective does not address the institutional deficiencies in the sense of judicial protection, the legal framework or even the proper functioning of the managing or other competent authorities. Such gaps pose serious stumble blocks to the implementation of cohesion policy, creating a negative investment climate, discouraging the development of conditions of effective competition and thus making the use of Structural Funds unappealing where those gaps exist (Rodriguez-Pose & Garcilazo, 2015). Apart from Cohesion Policy, these shortcomings also raise significant questions about the functioning of the area of freedom, security and justice which is based on mutual trust of the participating m-s in the quality of their institutions. Furthermore, such infringements of the rule of law undermine the very values of the EU as stated in art. 2 of the TEU (Chrysomallis, 2018).

One suggestion for addressing these shortcomings was the creation of an ex ante conditionality on the disbursement of Community funds tied to the respect of the rule of law. Using conditionalities in Cohesion Policy has been widespread since the 2007-2013 Operational period where the disbursement of resources from Hungary was suspended due to the exceeding of the deficit thresholds set out in the

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[40] Decision of the 23rd of April, 1986, ECJ C294-83, Greens v. European Parliament.

[41] This principle demands from the administrative authorities to respect the relevant procedures and proceed in only prescribed actions (Gros, Blockmans & Corti, 2020).

[42] Decision of the 3rd of September, 2008, ECJ C402-05, Kadi v. European Commission.

Stability and Growth Pact. However, ex ante conditionalities were introduced for the first time during the 2014-2020 Operational period, concerning macroeconomic indicators of each national economy tying to the commitments of the Economic and Monetary Union (Selih et al., 2017).

Adopting a compliance with the rule of law clause, however, covers areas where the legal basis of EU actions is more fragile. This is because, on the one hand, the concept of the rule of law is broad and vague, and on the other hand, there is an absence of a homogeneity among m-s for its exact meaning and the importance of complying with it. As such, its main concern is not to ensure institutional capacity of the beneficiary states and regions but rather to establish a sanctioning mechanism through which the effective protection of the rule of law will be achieved.

Nevertheless, in order to avoid ultra vires Union actions, the proposal revolves around the use of Community funds. Namely, to certify a violation of the rule of law, the latter must harm the financial interests of the EU. Such an allegation, however, will be difficult to prove, since a fraudulent change of the number of judges in a country's high court, for instance, even though constituting a rule of law infringement lacks a causal link with any possible financial damages (Kirst, 2021). Besides, no significant finding correlating the state of the rule of law with the absorption of Community funds has been observed so far. Endorsing this claim and in line with Chapter 4 findings, the absorption of ERDF funds from the regional managing authorities was found to be correlating more to the index of administrative efficiency rather than the indices of corruption or impartiality. An additional drawback of the relevant conditionality is the fact that it does not suit the practice of federal nations but rather international organisations such as the IMF. Consequently, it diverts the Union from the path of federalization and restores it to the status of merely an international organization (Selih et al., 2017).

In any case, the 2020 Covid-19 pandemic acted as a catalyst for this issue due to the forthcoming disbursement of very significant amounts via the newly established Recovery and Resilience Facility Fund. Despite not belonging to the Structural Funds, this fund follows their logic and methodology. As such, the proposal for the rule of law conditionality was again discussed. After dramatic negotiations with threats of veto by the countries threatened by this proposal, Regulation 2020/2092 was finally passed with the ordinary legislative procedure (Pisani-Ferry, 2020). Its provisions set a general conditionality regime with an objective of protecting the EU budget.

Adopting such a legislation was reasonable both politically and economically. It takes advantage of the pandemic situation, forcing governments seeking ways to rebuild their economies to accept terms that were once considered "taboo". Moreover, this Regulation was legally linked to the negotiations for the operational framework of the 2021-2027 period, thus accelerating the procedures (Gros et al., 2020).

Article 5 of the 2020/2092 Regulation states the measures of protecting the Community budget while article 6 analyzes the mechanism for using these tools. Furthermore, article 2 tries to describe the concept of rule of law which includes:

> *"[…] the principles of legality implying a transparent, accountable, democratic and pluralistic law-making process; legal certainty; prohibition of arbitrariness of the executive powers; effective judicial protection, including access to justice, by independent and impartial courts, also as regards fundamental rights; separation of powers; and non-discrimination and equality before the law. The rule of law shall be understood having regard to the other Union values and principles enshrined in Article 2 TEU;"*

Even though significant steps have been made, some provisions of the Regulation and especially the European Council Conclusions of 10-11th December 2020 have undermined its effectiveness. First, Recital 17a of the Regulation provides a possibility of suspending the procedure and referring it to the European Council in case of suspicions or indications of discrimination or bias by the complainant European Commission. This tool, apart from diverting the process from the envisaged judicial to the political path, manages to suspend the implementation of the Regulation's provisions, providing negotiating leeway for the accused m-s (Kirst, 2021).

More importantly, however, the European Council Conclusions compromised the implementation of the Regulation as a whole since it was decided that before its enactment the Commission must publish guidelines only after legal action brought before the European Court of Justice via the Action of Annulment procedure (263 TFEU). This attitude of the European Council can be described as obiter dictum since this body lacks relevant competence on the matter and moreover lacks the ability to command an independent and supranational body as the European Commission (Alemanno & Chamon, 2020). In any case, this provision can significantly delay the actual entry into force of the Regulation.

The debate on transforming the quality of institutions under the umbrella of the rule of law into a conditionality for the disbursement of Community funds will be of great concern to the European reality in the coming years. It only remains to be seen whether the debate will remain in the political arena or whether it will be used as a lever of pressure to create effective and legitimate public administrations.

5.2 Institutions as an antidote to COVID-19

Before the completion of the negotiations for the 2021-2027 multiannual financial framework, on January the 24th, 2020, the first case of Coronavirus was detected in Europe[43]. The immediate reactions of the European countries included switching off economic activities and restricting citizen's mobility, reactions with unprecedented consequences for the economic welfare.

Given the clear externalities of the pandemic, the need for intervention of a central and supranational body such as the EU was imperative. The intervention was deemed necessary both in the health system sector – which does not belong to the exclusive competences of the EU – and in the field of the economy. In order to maintain market stability, the Commission instantly used the Structural Funds.

In particular, in April 2020 the CRII package (Coronavirus Response Investment Initiative) was created and within the same month it was complemented by CRII+ (European Commission, 2021). Both programmes aimed to provide the necessary liquidity and flexibility to the m-s seeking resources to mitigate the financial consequences of the pandemic. The first program had as an objective the postponement of payments for Cohesion Policy by the m-s. Meanwhile, expenses related to countering the pandemic were included as eligible costs for which m-s could be compensated. Moreover, the reallocation of resources between programmes and funds was allowed in order to reinforce particularly burdened regions and sectors. Finally, it provided the possibility of co-funding of up to 100% by the EU for the accounting year 2020-2021 (Bachtler et al., 2020).

Following these emergency measures, the EU continued to take initiatives by proposing one of the most ambitious plans for the economic recovery in July, 2020[44]. Specifically, at the same time of the voting of the EU budget, it suggested the creation of a new fund which will borrow money on behalf of all the m-s, issuing mutual debt. Negotiations within the European Council culminated into a less ambitious but nevertheless groundbreaking programme, the Next Generation EU (NGEU), a part of which is the Recovery and Resilience Facility (RFF) (European Commission, 2021). According to this plan, the European Commission will borrow from the international markets using the creditworthiness of the m-s and then distribute these funds via loans and grants. States should have programmes in place to capitalize on this money, specifying the areas and means to be used on (European Commission, 2021). Even though it is early to evaluate the contribution of these measures, it must be observed that

[43] WHO/Europe | Coronavirus disease (COVID-19) outbreak - 2019-nCoV outbreak: first cases confirmed in Europe
[44] After five-day marathon, EU leaders agree on €750 billion recovery plan | The MacMillan Center (yale.edu)

the EU acted swiftly and consistently in order to assist the European states to mitigate the consequences of the health and ensuing economic crisis.

On one hand, the CRII and CRII+ support packages used cohesion policy directly as a vehicle for such action. Secondly, the RFF despite not being part of cohesion policy uses its methodology and is directly influenced by it (Bachtler et al., 2020). As such, the same factors that affect cohesion policy can be assumed that will impact the use of funds from the RFF.

At the time of writing, central and regional administrations are surrounded by three different investment tools. First, the remaining resources of the 2014-2020 operational period must be used. Secondly, the funds provided by the RFF must be committed until 2023, after the approval of the national growth plans[45]. Thirdly, from 2022, the procedure of disbursing funds for the 2021-2027 operational period of cohesion policy must begin, a period which sets new thematic areas and challenges (Bachtler et al., 2020).

The opportunities to finance new, avant-garde and with multiplying effects projects are enormous. But so are challenges. The funds offered must not only be used, but at the same time be directed on activities that will enhance the growth capabilities of a region. This attempt necessarily has to follow the complex cohesion policy framework. Therefore, the question that arises is whether European states will be able to harness the multitude of available funds and restructure their economies. As Darvas (2020) points out, Italy and Spain which will receive much of the new resources have some of the worst returns on fund absorption under Cohesion Policy.

The relevant regulations, already focus on the role of institutions for the effective implementation of projects. In particular, m-s must describe which bodies, national or regional, will be in charge of using these funds, while in addition they must specify the relevant procedure. Stakeholders and other organizations involved in the programming period must be mentioned for reasons of transparency. Moreover, an additional coordinating body was established in each country in order to have the full oversight of the plan and communicate with the European Commission (Butti & Polli, 2021).

Understandably, public administrations need to be equipped with the flexibility and technical capacity to meet these new needs. In fact, for this purpose the tools of the Technical Assistance of the Commission which assist the local and national directorates in their effort to absorb the provided resources can be used (European Commission, 2020). In addition, a number of guidelines and recommendations have been issued to improve the administrative capacity of MS. The findings in

[45] Council gives green light to first recovery disbursements - Consilium (europa.eu)

Chapter 4 support the Commission's insistence on creating quality regional administrations as it has been shown that better governance at regional level is correlated to better absorption of Community funds. In addition, the variable of effective governance is the one that responds best to the absorption and especially to the disbursement of resources from the Structural Funds.

It is therefore clear that the quality of the institutions in its administrative sense is of direct interest to both the Commission and the Member States in their efforts to control and reverse the negative effects of the COVID-19 pandemic. In this endeavor, however, they may at the same time succeed in entering a "virtuous circle" of quality institutions and economic development (Acemoglu & Robinson, 2012).

6. Epilogue

The EU's cohesion policy, either as a redistributive mechanism or as a driving force for endogenous growth, is arguably one of the bloc's most important economic tools for evening out the development field between countries and regions. Challenges – economic, political, health related – have further enhanced the role of Cohesion Policy as a mechanism able of tackling their consequences, albeit temporarily. This development is a result of constant compromises and redefinitions of the achievable goals. At the same time, it is a testament of solidarity between the m-s, as Community funds are channeled into the real economy of weak regions and turned into tangible projects which improve the overall social welfare.

Although complicated, the implementation procedure is an avant-garde model of multilevel governance based on the cooperation of different level authorities, the exchange of views and best practices between them and a more technocratic and efficient orientation. Thus, it is reasonable that this mechanism necessitates the contribution of both formal and informal institutions.

Findings hereby, confirm the link between institutions and cohesion policy, namely regional institutions and the absorption of funds from the European Regional Development Fund. In particular, a clear, albeit not decisive, correlation is observed between quality of governance and rates of Community funds that a region has committed and ultimately disbursed by 2020.

During the first years of an operational period, institutional quality seems to affect more the commitment process. The corresponding link between regional institutions and funds disbursement is observed only after the absorption procedure has progressed significantly, and in particular after half of the operational period.

The index of asymmetry of fund's commitment rate was created in order to reflect the time dimension of one's Managing Authority's absorption capacity. The association between this index and quality of governance confirmed the hypothesis that regions with a better governance will be those that absorb funds more consistently.

Finally, the assumption of whether a greater absorption exists in regions with higher quality of regional governance within m-s was tested. It was observed that in regards to commitment, no significant correlation emerges. On the contrary, the disbursement part positively correlated with the quality of governance within m-s showing that it is affected more by the institutional environment rather than the overall state of fund commitment.

The importance of institutions remains only to increase given the next steps in cohesion policy, procedural and legal. The EU's response to the pandemic led to the leverage of augmented amounts of resources for the effective management of which responsible will be central and regional authorities of the m-s. Moreover, Regulation 2020/2092, establishing the general conditionality of the rule of law gives a regulatory character to the quality of governance.

In conclusion, as North (1991) stated: "Institutions Matter". And their influence in cohesion policy is obvious both from a theoretical and practical point of view.

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