COHESION POLICY AS A DRIVER TO PROMOTE GOOD GOVERNANCE IN THE EU MEMBER STATES

Daniel Zimmermann

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Abstract
The quality of public institutions has a major impact on the social and economic development within the EU member states. Regions with high government effectiveness, low corruption and high-quality public services tend to have higher outcomes in economic performance and social inclusion. In case of EU cohesion policy funding, the Seventh Cohesion Report published by the European Commission in 2017 demonstrates that regions with weak institutions have difficulties in absorbing regional development influences effectively and using the European structural funds properly in order to promote growth. The European Commission has recently set out several initiatives to strengthen good governance and administrative capacity building to improve the management of the European structural funds. This paper will scrutinize whether the cohesion policy implies proper instruments to promote good governance.

1. Introduction

The quality of public institutions has a major impact on the social and economic development within the member states of the European Union (EU). Regions with high government effectiveness, low corruption and high-quality public services have higher outcomes in economic performance and social inclusion. In case of EU cohesion policy funding, the seventh report on economic, social and territorial cohesion, the so-called Seventh Cohesion Report, published by the European Commission in 2017 demonstrates that regions with weak institutions have difficulties in absorbing regional development influences effectively and using the European structural funds properly in order to promote growth [11]. Especially in terms of preventing the economic and social aftermath of the Covid-19-pandemic, member states and regions must be able to absorb a high amount of the European structural funds. Consequently, it is essential to invest in good governance in order to build administrative capacities. Lately, the European Commission has taken several initiatives to strengthen good governance and administrative capacity building to improve the management of the European structural funds. Good governance concepts mainly deal with the effectiveness and efficiency of institutions and are therefore closely linked to output-legitimacy.

At first, this paper will give a definition of the good governance approach by the European Commission. After that, it will show the different levels of government effectiveness within the European regions. Subsequently, the European Quality of Government Index (EQI) will be used for a comparative approach. The EQI measures several indicators such as the quality of government, the impartiality and the control of corruption at the regional level. Moreover, a comparison of the EU member states in the Danube region will be provided. Finally, the main question will be

1 University of Public Administration and Finance Ludwigsburg, Reuteallee 36, D-71634 Ludwigsburg, daniel.zimmermann@hs-ludwigsburg.de
discussed whether cohesion policy does have the potential to improve good governance and administrative capacity in the period 2021-2027.

2. Good governance - the approach by the European Commission

Having its origins primarily in development strategies of international organizations, the EU used good governance together with human rights, democracy, and the rule of law as a standard in agreements with external partners [3]. Good governance was closely linked to European foreign and enlargement policy. However, with the highly acclaimed white paper on European Governance published in the year 2001, the European Commission outlined a particular approach targeting at the quality and the effectiveness of the EU institutions as well as the EU European member states [13].

2.1. Defining good governance

There is a broad variety of defining governance causing criticism that an analytic concept of governance is still missing [7]. Several governance approaches have in common that they deviate from traditionally hierarchical forms of organization by putting the focus on the adaption of networks and more flexible forms of regulation and implementation [2]. This is mainly the case in the European multi-level-system where the formulation of policies and the implementation are interconnected among the supranational, national and regional level. Particularly in the fields of cohesion policy, the regional level is involved in the implementation of the European structural funds.

The term ‘good’ includes qualitative indicators such as effectiveness, efficiency, transparency, accountability, predictability, sound financial management, the fight against corruption, the respect of human rights, democracy and the rule of law [3]. Whereas the last three indicators are measuring the quality of state institutions in particular, the others are focusing public administration and management. So, these indicators are more related to output-legitimacy. That is why good governance in public authorities is obviously linked to ‘New Public Management’ till this day being the mainstream to make administrative processes more efficient, effective and transparent [16].

2.2. The approach by the European Commission

In 2001 the European Commission published a white paper on European Governance: It comprises rules, processes and behavior that affect the way in which powers are exercised at European level, particularly regarding openness, participation, accountability and coherence. The criteria can be assigned whether they are linked to input-legitimacy or output-legitimacy.

On the one hand, input-legitimacy involves political participation by and citizen representation of the people [19]. That is why the European Commission proposes that the citizens as well as the local actors shall be systematically involved in drafting and implementing European policies. To empower the civic society to participate in the decision-making, transparency and communication of the EU institutions have become crucial [13]. Furthermore, it should be clear which European institution (or institutions) is responsible during the decision-making process fulfilling the criterion of accountability.

Output-legitimacy, on the other hand, aims at the ability of the EU institutions to govern for the people effectively [19]. So, from the perspective of the European Commission, effectiveness is a
meaningful factor for output-legitimacy. A high effectiveness requires that a decision needs to be taken at the appropriate level and time, and deliver what is needed [13]. In case of the EU multi-level-system, it must be kept in mind that European directives and regulations have to be implemented into national law and executed by national, regional and local authorities. The European Commission defines high-quality institutions as those which feature an absence of corruption, a workable approach to competition and public procurement, an effective legal environment, an independent and efficient judicial system, and strong institutional and administrative capacities reducing the administrative burden and improving the quality of legislation [12]. Consequently, public administrations in the EU member states play a major role for the output-legitimacy [15].

Last but not least, effectiveness is closely linked to coherence and accountability. Coherence requires a strategic approach implying that policy actions shall contribute to common objectives which are formulated by the European Commission. So far, the European Commission has presented several strategies including the ‘Europe 2020 Strategy’ and the new ‘European Green Deal’, for instance, which will shape European policies for the next years.

3. The European Quality of Government Index (EQI) - an instrument to measure governance effectiveness

For a high quality of outputs of the EU multi-level-system, efficient public administrations and institutions are important to achieve the common objective of increasing cohesion and reducing disparities among the European regions [21]. Hence, the EQI was developed by the Quality of Government Institute at the University of Gothenburg in the year 2010 and has been funded by the European Commission since then. Till today three reports have been published. The latest report was composed in 2017.

3.1. Indicators

The quality of government and public service, impartiality as well as the control of corruption form the three pillars of the EQI. Regarding the quality of authorities and institutions, the use of e-Government can be beneficial for both people and governments provoking less administrative costs, citizen-friendly and business-friendly services and transparency [12]. Without doubt, e-Government has the potential to make services digital which is not necessarily equivalent to a higher quality of services. A low quality of government and impartiality and high corruption rates may have negative effects on business investment and economic growth. Corruption per se leads to a state losing its legitimacy and cause political and economic instability and reduces business investment [12].

The analytic approach of the EQI is based on the perceptions and experiences of the people in the 27 EU member states in the fields of policies which are governed or administrated by the subnational level. These are namely education, health care and law enforcement, and additionally fairness of tax authorities, social trust, and political values [21].

A methodological weakness of the index can be found in measuring the quality of governance based on the perception of the citizens which can vary from state to state. It can be assumed that the expectations of the people increase together with the quality of governance and the domestic attitude towards national institutions. Countries in which people believe in their regional and local authorities are also those in which people trust the authorities not to be corrupt [12]. A study of the World Bank demonstrates that the citizen’s confidence in public institutions is less present in
Bulgaria, Croatia, Hungary, and Romania [12]. However, surveys among EU member states show that corruption and fraud are not accepted by the broad majority of citizens, regardless of whether they live in Bulgaria or in Germany [6]. It can be assumed that inhabitants from countries with higher corruption rates tend to be more sensitive to this topic.

3.2. Performance of Danube regions

Regarding the latest EQI from 2017, it is difficult to draw lines between the Northern and Southern or the Western and Eastern European member states [4]. Over the years regions in Scandinavian states have undisputedly established on the top of the list with high performances. However, when we take a closer look at the Danube regions, the German regions (Baden-Württemberg: 1.07, Bavaria: 1.34) have a score far above the EU average. The performance of the Austrian regions varies from 0.66 (Carinthia) to 1.09 (Vorarlberg). The Central and Eastern European states have in common that they perform under the EU average varying from -0.29 (Slovenia) to -2.27 (Severozapaden). The score of the Hungarian regions is between -0.75 (Dél-Alföld) and -1.45 (Közép-Magyarország). In the following section an in-depth comparison of the Danube regions will be drawn by examining the performances within the indicators.

3.3. Comparison of Danube regions

The EQI offers an interactive web tool to compare the performances of the regions considering the quality, impartiality and corruption pillar. The EQI does not only imply an individual score within each of these pillars, but also a comparative analysis in reference to 15 regions with the most similar Gross Development Product (GDP) per capita. It takes into account that the quality of governance highly depends on the economic performance and the national budgets. The GDP is also the main indicator to classify the European regions into more developed and less developed regions. The higher amount of the European structural funds is naturally allocated to less developed regions.

The following table illustrates the score of selected regions in the Danube area. The scores vary from 100 (top performance) to 0 (less performance). The second column indicates the total EQI score for a region whereas the following columns show the performances regarding the quality of government, the impartiality and the corruption in detail. In case of Austria, Bulgaria, Hungary and Romania only the regions with the highest and the lowest score within the member states are included. The performances of the other regions within these countries are located between the scores of the top and less performing regions of these countries.

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<table>
<thead>
<tr>
<th>Region</th>
<th>Total EQI score</th>
<th>EQI score in the quality pillar</th>
<th>EQI score in the impartiality pillar</th>
<th>EQI score in the corruption score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bavaria (DE)</td>
<td>78.6</td>
<td>97.7</td>
<td>72.4</td>
<td>73.2</td>
</tr>
<tr>
<td>Vorarlberg (AT)</td>
<td>73.0</td>
<td>74.9</td>
<td>83.8</td>
<td>68.6</td>
</tr>
<tr>
<td>Baden-Württemberg (DE)</td>
<td>72.8</td>
<td>83.2</td>
<td>72.9</td>
<td>71.0</td>
</tr>
<tr>
<td>Carinthia (AT)</td>
<td>63.6</td>
<td>64.5</td>
<td>76.1</td>
<td>61.2</td>
</tr>
<tr>
<td>Slovenija (SLO)</td>
<td>43.0</td>
<td>50.8</td>
<td>50.2</td>
<td>45.4</td>
</tr>
<tr>
<td>Dél-Alföld (HU)</td>
<td>33.0</td>
<td>40.8</td>
<td>41.6</td>
<td>37.1</td>
</tr>
<tr>
<td>Severen Tsentralen (BG)</td>
<td>27.6</td>
<td>23.6</td>
<td>36.8</td>
<td>43.6</td>
</tr>
<tr>
<td>Sud - Muntenia</td>
<td>25.3</td>
<td>24.6</td>
<td>34.3</td>
<td>39.1</td>
</tr>
<tr>
<td>Jadranska Hrvatska (HR)</td>
<td>24.2</td>
<td>31.2</td>
<td>30.2</td>
<td>33.9</td>
</tr>
<tr>
<td>Kontinentale Hrvatska (HR)</td>
<td>22.3</td>
<td>31.2</td>
<td>27.2</td>
<td>32.2</td>
</tr>
<tr>
<td>Kőzép-Magyarország (HU)</td>
<td>17.6</td>
<td>26.0</td>
<td>29.6</td>
<td>22.4</td>
</tr>
<tr>
<td>Sud-Est (RO)</td>
<td>6.3</td>
<td>17.0</td>
<td>12.9</td>
<td>17.6</td>
</tr>
<tr>
<td>Severozapaden (BG)</td>
<td>0.0</td>
<td>12.4</td>
<td>0.0</td>
<td>17.9</td>
</tr>
</tbody>
</table>

As already mentioned above, Baden-Württemberg and Bavaria rank above the EU average in absolute numbers. In general, German citizens are more positive about the quality of government and impartiality while people living in Romania and Bulgaria are the least positive. Especially in these countries the low quality of government and institutions appears to be a major obstacle to economic growth. Corruption is a drag on economic growth leading to the misallocation of public funding, resources, distortion of incentives and other inefficiencies that it causes [12].
Considering e-Government, the performances of most EU member states in the fields of online availability and usability are higher than in indicators relating to the ease and speed of online services. The e-Government benchmark published by DG REGIO demonstrates that Bulgaria, Croatia, Hungary, Romania and Slovenia are considered as moderate performers in the delivery of digital services whereas Germany and Austria score above the European average [12]. However, the recent Digital Economy and Society Index (DESI) from 2020 only rank Austria above average regarding digital services and e-Government.

4. Cohesion policy as a driver for good governance

EU funding is distributed to all European regions. However, a higher amount of European structural funds is directed to the less developed regions. These are regions where the GDP per inhabitant is beneath 75 per cent of the EU average. Especially in these regions cohesion policy is the main source of public funding. That is the reason why the cohesion policy is one of the EU’s central policies, but also one of the most complex and difficult [1].

Irrespective of whether a region is a high or a less developed region, cohesion policy is an elemental pillar of the output-legitimacy enabling the EU to be visible in all regions of the member states. The performance of regional and local authorities plays a key role in the management and implementing of the European structural funds [20]. Otherwise European funding cannot be allocated to proper projects which in turn shortens the output legitimacy of the EU’s objective to promote economic, social and territorial cohesion within the European regions (see Article 174 Treaty of the Functioning of the European Union (TFEU)).

The Seventh Cohesion Report from the year 2017 demonstrates that regions with weak institutions and slight performance of public administrations have difficulties using the European structural funds effectively [12]. From all the EQI indicators corruption may have the most negative effects on the allocation for the European structural funds. Consequently, good governance and capacity building of regional and local administrations have recently become a major goal to improve the effectiveness of European funding [21]. Before examining whether and to what extent regional and local authorities can improve their institutions by managing the European structural funds, the following section outlines the objectives of the future funding period.

4.1. Objectives of the funding period 2021-2027

According to Article 174 TFEU, the EU shall aim at reducing disparities between the level of development of the various regions and the backwardness of the least favoured regions. Several funds, namely the European Regional Development Fund (ERDF), the European Social Fund plus (ESF+) and the Cohesion Fund (CF) are the major instruments to strengthen the economic, social and territorial cohesion of the European regions. Whereas funding from the ERDF and the ESF+ is directed to all European regions, the CF only aims at member states with a Gross National Income (GNI) per inhabitant less than 90 per cent of the EU average. This means that the CF provides financial support to all European member states of the Danube region except Germany and Austria.

For the period 2021-2027 the European Commission published a draft for a common provisions regulation in May 2018 which defines general objectives and management principles for all

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European structural funds. These objectives are earmarked to supporting economic growth and a high level of employment. In addition, particular regulations include special requirements for the European structural funds such as ERDF and ESF+. The legislative package is expected to be adopted later this year. However, a consensus on the framework for the period 2021-2027 was achieved by the Council of the European Union and the European Parliament in late 2020. So, there will be no crucial changes regarding the funding priorities [9]. In accordance with the Commission’s proposal, the following policy objectives will be applied [10]:

(a) a smarter Europe by promoting innovative and smart economic transformation;
(b) a greener, low-carbon Europe by promoting clean and fair energy transition, green investment, the circular economy, climate adaptation and risk prevention and management;
(c) a more connected Europe by enhancing mobility and regional information and communication technologies (ICT) connectivity;
(d) a more social Europe implementing the European Pillar of Social Rights;
(e) a Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives.

The CF, the ERDF and the ESF+ can be used by the member states and regions to contribute to different objectives. Totally 30 per cent of CF funding and 37 per cent of ERDF are supposed to meet the specific climate targets of the European Green Deal [8]. The CF which will be stocked with €42.5 billion aims at the environmental infrastructure in the EU member states [8]. The ERDF is designed to address economic, environmental and social problems in urban areas, with a special focus on sustainable urban development. It will be supported with €200.3 billion. By paying attention to the objectives a, b, c and e, the key priorities are innovation and research, the digital agenda, support for small and medium-sized enterprises (SMEs), environment and the net-zero-carbon economy.

While the CF and the ERDF are mainly directed to infrastructure, environment and innovation, the ESF+ is the most important instrument to financially support employment measures, better education and social inclusion, especially to prepare the work forces for the digital transformation [22]. The ESF+ will be stocked with totally €87.9 billion.

Without doubt, the Central and Eastern European regions have accomplished an extensive improvement of the quality of governance since 2010. Some authors point out the positive influence of the EU administrative capacity requirements for the use of the European structural funds [21]. In the following sections the paper will scrutinize whether the management of the European structural funds directly requires good governance and indirectly has the potential to promote it. The investment in public administration will also be considered.

4.2. Increasing good governance by implementing the European structural funds

The ambitious objectives for the funding period 2021-2027 will only be achieved if the regional and local authorities are able to absorb the funding and manage projects in an effective and efficient way. However, insufficient capacity and efficiency of public administration in some EU member states and regions have negative effects on the implementation of the European structural funds [9]. Regarding the shared management of the European structural funds between the EU national and regional levels, we have to distinguish between the implementation of the European structural funds by regional governments and the absorbing of funding by regional and local authorities which is based on the Operational Programmes (OP).
The preparation of the OP is the first step of implementing the European structural funds. They are the key documents to achieve the objectives of each European structural fund within a region in a seven-year-period. By introducing a code of conduct on partnership during the period 2014-2020, partnership has been considered as an elemental principle of the implementation of cohesion policy [18]. The code of conduct is still valid during the funding period starting from 2021. This means that regional and local governments as well as the civil society are intensely involved in the preparation of the programmes and are also part in the monitoring committees [8]. So, the implementation complies with the participation criterion for good governance (see section 2.2).

Referring to the OP, potential beneficiaries such as local authorities, educational, social or cultural facilities or even private companies are able to apply for the European structural funds. Good governance and capacity building in regional and local administrations are necessary to manage the funds properly to promote economic growth [21]. Poor governance in lagging areas of the EU, however, is still a significant obstacle to regional competitiveness. Nevertheless, what the financial instruments have in common is that they have been criticized by local actors for their high complexity and administrative workload [23]. In order to ease the management of the European structural funds, the European Commission proposed around 80 simplification measures for the period 2021-2027.

Therefore, efficient public administrations on a regional and local level are a condition for European investment including elements of strategic planning, quality management, simplification of administrative procedures, development of human resources and procedures and tools for monitoring and evaluation [21]. We have to consider that in Central and Eastern European member states the programming process is still top-down organized. The range of action for regional and local actors is rather limited compared to federal or decentralized member states [20]. For instance, the Operational Programmes for the Hungarian regions are formulated by central government bodies. Regional and local actors are only able to articulate their interests and needs during the consultation processes. In the period 2014-2020, however, they were given an increased competence concerning the selection of projects [14]. Such measures to incorporate regional and local actors are necessary to prevent any challenges or bottlenecks in executing projects financed by the European structural fund. These states are able to contribute to output-legitimacy [12]. So, managing the European structural funds has the potential to increase the quality of government and public services.

ICT can improve the management, monitoring and evaluation of the European structural funds. Consequently, a system of electronic data exchange between beneficiaries and managing authorities and among different authorities of the management and control system was launched during the period 2014-2020 [10]. Furthermore, ICT may make the allocation of funding by public and private actors more efficient and transparent. In Hungary, for instance, the projects financed by the European structural funds as well as their funding amount can be found on a well-arranged website. Such platforms provide an insight in the European funding for possible applicants and thereby make the outcome of cohesion policy visible.

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4 For further information see terkep.fair.gov.hu
4.3. The potential of ex-ante-conditionalities

A major influence on increasing good governance are the ex-ante-conditionalities which were introduced with the beginning of the last period 2014-2020. These mean that the EU member states have to fulfil several conditions in advance to guarantee the most efficient use of the European structural funds [1]. Referring to Annex III and IV of the draft for a common provisions regulation, they can be divided into the categories of horizontal and thematic conditionalities.

The horizontal conditionalities deal with administrative tools and capacities in the fields of the effective monitoring of public procurement, the effective application of state aid rules as well as anti-discrimination [10]. So, their goal is to improve the capacity and efficiency of public administration in the EU member states and regions indirectly, enabling economic growth and preventing corruption.

Besides the horizontal conditionalities, the thematic ones require the deployment of national and regional strategies in the fields of transport, health, digitalization, waste management, climate change, and vocational education and training systems [5]. Consequently, both types of conditionalities have the potential to promote good governance in the member states, especially by increasing the quality of government and fighting corruption.

4.4. Funding of public administrative capacities

In order to identify best practices, a closer look on the data base which was established by the European Commission to compile genuine projects could be useful. In the period 2014-2020 the transnational project ‘ERUDITE’ with participating regions from Finland, France, Hungary, Ireland, Italy, Sweden and Slovenia is an excellent example how funding by the ERDF could contribute to promote digital services combining competences and innovations from business, public authorities and citizens.6

As mentioned above, the ERDF is linked to the strategic priorities of the European Commission which is besides the European Green Deal the digital strategy of the EU. In contrast to the period 2014-2020, a specific objective dealing with administrative capacity building is missing. In the period 2021-2027 the European Commission follows a different approach: Henceforth, support actions within each of the five policy objectives (see section 4.1) will be possible leading to improving institutions and governance as well as the cooperation with partners [20].

On these grounds, ERDF investments will focus on digitalization of services for businesses and citizens [10]. Digital technologies in the public sector have the potential to increase the quality of public services. The less developed countries such as the Central and Eastern European member states can also use the CF and the ERDF to improve the capacity of programme authorities linked to the implementation of the funds [11]. Such technical assistance would help regional and local authorities to achieve the tasks assigned under the common provisions regulation [21]. In contrast to the ERDF, funding from the ESF+ can be used for capacity building of human resources in the public sector and by that enhancing the efficiency of public administrations [21]. So, the CF and the

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5 For further information see https://ec.europa.eu/regional_policy/en/projects
European structural funds play a major role in promoting good governance, especially in the less developed member states.

In addition, the pilot action ‘Frontloading administrative capacity building for post-2020’ was launched together with the Organisation for Economic Cooperation and Development (OECD) in the year 2018 to improve good governance and administrative capacity for cohesion policy [21]. Besides national and regional authorities in Greece, Poland and Spain, the European Commission selected Croatia and Bulgaria as parts of the Danube regions. The goal of the pilot action is to identify key finding and recommendations for managing authorities and the European Commission to improve the provisions to implement the European structural funds.7

4.5. New financial support by the Recovery and Resilience Facility

In order to overcome the economic and social crisis caused by the coronavirus pandemic, the member states agreed on the recovery instrument ‘NextGenerationEU’ in late 2020. Its centerpiece is the so-called Recovery and Resilience Facility (RRF) which entered into force in February 2021. With €672.5 billion in total (€312.5 billion in grants; €360 billion in loans) it supports public investment and reforms in the EU member states. Like the structural funds, the RRF is closely linked to the strategic agenda of the European Commission putting focus on the investment in green and digital transition [17]. So, the RRF supports national efforts to promote digital services. Germany, for instance, is planning to invest in digital services and e-Government.8 Therefore, the RRF is a chance for more developed regions to improve the quality of government.

When looking at the governance of the RRF, however, it lacks a multi-level-approach as we know from cohesion policy. According to Article 18 of the regulation (EU) 2021/241 establishing the RRF is up to the EU member states to outline their reform and investment priorities in national recovery and resilience plans without a compulsive participation of the regional and local authorities [17]. In fact, the governance of the RRF contravenes the good governance principle of participation. This could possibly lead to a less performance of RRF investments when the needs of the regional and local level are not sufficiently incorporated in the programming by the EU member states.

5. Conclusion

The question of the paper has been whether the cohesion policy implies proper instruments to promote good governance within the EU member states. A comparative analysis of the Danube regions revealed differences in the criteria of the EQI which are the quality of government and public services, impartiality and the control of corruption. As the data demonstrated, the quality of governance decreases the farer the Danube river flows in the southeast direction. While relatively more financial support is distributed to the Central and Eastern European member states belonging to the category of less developed regions, the cohesion policy, in particular, has the potential to promote good governance. The following results of the paper lead to this assumption: First of all, the implementation of cohesion policy requires a decentralized approach delegating responsibility and competences to the regional and local level. By participating in the implementation process, regional and local authorities would also be able to increase the effectiveness of structural funding because they dispose of a greater insight in the needs of several regions. In general, multi-level-

7 For further information see https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/frontload/#1
8 For further information see https://www.bundesregierung.de/breg-de/aktuelles/eu-aufbaufonds-1853940
governance is a convenient tool to promote good governance. Secondly, the ex-ante-conditionality contribute to capacity building and to the effectiveness and efficiency of public administration within the EU member states. Finally, funding from the ERDF and the ESF+ can be allocated to digitalize service. Digitalization and e-Government have been established as key factors to rise the quality of government and institutions. The allocation of the European structural funds to the appropriate projects could thus be extremely beneficial for good governance.

6. References


