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# Governance and the implementation of the EU Cohesion Policy

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## Abstract

This paper explores the role of governance in policy implementation, using the European Union (EU) Cohesion Policy as a case study. Leveraging a quasi-natural experiment in Italy, where certain projects were shifted from EU to national management, we evaluate the impact of governance structures on financial execution. Using a non-parametric generalization of the difference-in-differences estimator, we find that otherwise identical projects achieve better financial execution under EU governance. Projects reassigned to national management experience a significant slowdown in financial execution within ten months, with delays reaching nearly 20% after 24 months. These delays are particularly pronounced when projects are managed at the sub-national level rather than by the national government. Our findings contribute to the broader policy debate on the effectiveness of multi-level governance structures in public investment programs.

*JEL Classification: C21, O40, H54, R11*

*Keywords: Place-based policies, Regional Transfers, Governance, Institutional Quality, European Union*

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## 1. Introduction

The European Union's (EU) Cohesion Policy channels substantial financial resources to less developed regions to promote economic and social cohesion. Its implementation operates within a complex, EU-specific governance framework characterized by distinctive rules and procedures. This paper exploits a quasi-natural experiment in Italy, where selected projects were transferred from EU to national management, to examine the role of European governance in shaping policy execution. The institutional quality and administrative capabilities of the governing bodies, together with the rules and procedures being followed, can significantly influence policy outcomes. (Lofthouse, 2024). This study specifically examines how governance structures influence the financial execution of projects and the extent of implementation delays—both of which are critical determinants of policy effectiveness. Governance frameworks can either facilitate or obstruct policy implementation, depending on their capacity to manage, monitor, and execute initiatives efficiently and within the designated timeframe. As emphasized by Juhàsz and Lane (2024), bureaucratic capacity — the capability of an administration to implement and oversee projects — is crucial for policy effectiveness: "policies need to be executed and monitored. Administrations need resources, capital, staff, technology, and knowledge to do policy." (Juhàsz and Lane, 2024, p. 13). A priori, it is not evident whether the supranational, national, or local level is best suited for policy implementation. While some programs may benefit from economies of scale in technical expertise —making the EU level the most efficient—others may need in-depth knowledge of the markets and businesses with which the program is going to interact, so local management may be preferred. European and national place-based policies—where the latter operate under the autonomous governance of individual Member States—differ significantly in their implementation frameworks. The EU Cohesion Policy is characterized by a structured approach to the implementation of its projects, featuring well-defined rules and procedures, stable legal frameworks, and supra-national coordination and technical assistance.[1] It operates on a multi-annual funding cycle; to ensure that projects are completed within the allocated timeframe, it is envisaged that all funds must be utilized within two to three years after the end of the EU's multi-annual budget period; otherwise, they are forfeited. In contrast, the implementation of national place-based policies is generally more flexible, less structured and subject to a different risk of forfeiture in case of lack or delayed implementation.[2] National projects lack the stringent administrative procedures and extensive oversight characteristic of EU-funded projects. While this flexibility allows for more tailored responses to local needs, it can also lead to varying degrees of efficiency and effectiveness, depending on the national or region's administrative capacity and local governance. Technical assistance from the central government to local authorities is often limited. Additionally, the policy operates on an annual budget, permitting the rollover of funds between financial years—unlike the rigid timelines imposed by the EU. However, there is a risk of reallocation or forfeiture during annual budget reviews. Since the national government may unpredictably reallocate funds based on public finance needs or political considerations, project managers face pressure to accelerate execution to mitigate the risk of funding losses.

By comparing EU and national rules and procedures, this paper examines the role of the implementation framework – specifically the administrative capacity to monitor and oversee the projects – in shaping intervention e performance. We focus on the financial execution of the EU Cohesion Policy, leveraging a quasi-natural experiment in which some projects

[1] See: https://ec.europa.eu/regional_policy/policy_en

[2] See for the case of Italy, the specific case study under analysis: https://politichecoesione.governo.it/it/politica-di-coesione/

were quasi-randomly switched from EU to national framework in Italy, during the 2007-2013 EU programming cycle. This quasi-experimental setting makes it possible to compare project that are ex-ante highly similar, as they all originate within the EU framework. Therefore, differences in performance can be attributed to the change in implementation framework rather than differences in project design. In particular, we analyse a set of infrastructural projects, applying a non-parametric generalization of the difference-in-differences estimator (Imai et al., 2023) to mitigate potential selection bias between treated (transferred to national management) and untreated (remaining under EU management) projects. Our primary dependent variable is a measure of timely implementation at the project level, tracking monthly changes in the share of disbursed funding relative to programmed funding. This is an important outcome, as it reflects the administrative capacity to execute allocations efficiently. In the context of the EU Cohesion Policy, cross-country comparison data on financial execution are regularly published, and falling behind other countries is often perceived as a stigma, exacerbated by media coverage of such comparisons. Moreover, the ability to disburse funds on schedule serves as a built-in incentive mechanism in recent National Recovery and Resilience Plan (NRRP) programs[3], where subsequent installments are withheld if previous ones have not been fully spent. However, the ability to meet spending deadlines, may not always align with program effectiveness in a counterfactual sense (von Ehrlich 2024). For instance, it may create incentives for a rapid depletion of funds at the expense of spending quality. Despite the importance of financial execution as a policy outcome, surprisingly little literature has addressed this issue, with the notable exception of the descriptive evidence provided by Crescenzi et al. (2021) and Del Monte et al. (2022). Alternative measures of spending efficiency have also been recently explored in Afonso et al. (2024). This paper seeks to address this critical gap in the literature.

The quasi-experimental evidence produced in this paper suggests that projects managed under supra-national EU rules tend to perform better in terms of financial execution. As for the mechanisms, the empirical evidence we provide supports and extends some previous findings. Specifically, our results suggest that the regulatory framework and oversight provided by the EU may help mitigate corruption and inefficiency, which tend to be more prevalent under national governance (De Angelis et al, 2020; Barone and Narciso, 2015). Conversely, the higher EU standards of accountability and transparency together with the provision of technical assistance support timely project execution (Overman and vonEhrlich, 2020). Our results also indicate that the level of governance at which treated projects are managed impacts their financial execution. Among the projects reassigned to national management, those administered at the regional (sub-national) level experience greater delays compared to those administered centrally at the national level. This finding aligns with research suggesting that local governments often lack the administrative capacity and expertise required to effectively manage large-scale projects (Overman and vonEhrlich, 2020). Furthermore, D'Amico (2021), argues that local governments overseeing such programs may exhibit a preference for redistributive interventions, even at the expenses of more effective but less electorally advantageous policies.

The paper is structured as follows. Section 2 presents the key features of the EU governance model and discusses the quasi-natural experiment setting. Section 3 introduces our methodology. Section 4 provides the baseline results, some

[3] The Next Generation EU (NGEU) program represents the largest economic stimulus package in EU history, amounting to €800 billion (in current prices) between 2021 and 2026. Designed as an unprecedented response to the economic fallout of the COVID-19 crisis, NGEU is primarily channelled through the Recovery and Resilience Facility (RRF), which funds the National Recovery and Resilience Plans (NRRPs) of individual EU Member States. These plans outline country-specific investments and structural reforms aimed at fostering economic recovery, digital transformation, and the green transition, with strict conditionality linked to measurable milestones and targets. Given the scale and strategic significance of NGEU, effective financial execution is of paramount importance, making it crucial to understand the administrative and governance factors influencing the disbursement of funds.

robustness analysis and the additional results referring to the administrative level of project management and the institutional quality of the beneficiary territories. Section 5 concludes with some policy reflections.

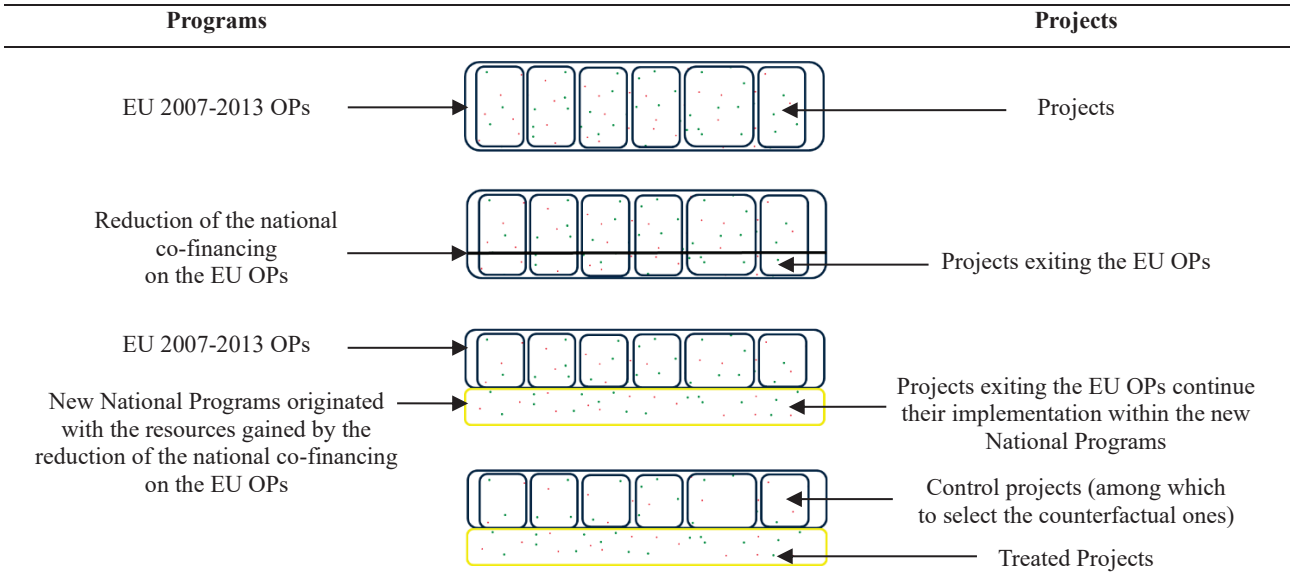
## 2. EU and national governance of regional development programmes: a quasi-experimental framework

Italy provides an ideal quasi-experimental setting to evaluate EU governance arrangements relative to national governance. Given the persistent underdevelopment of its southern regions, Italy's Cohesion Policy has historically operated through a dual structure: EU-funded programs, which require mandatory national co-financing, alongside national programs financed through dedicated domestic resources. Both EU and national programs typically pursue similar cohesion objectives and frequently operate in the same regions. For example, a highway project may be funded either by European resources or national sources, with EU rules and procedures applying only in the former case. This dual framework allows for a comparison of similar projects under distinct governance structures. However, the assignment of projects to European or national programs is unlikely to be entirely random. For instance, if higher-quality projects are systematically selected for EU funding due to the stricter oversight requirements, comparisons of financial performance between EU-funded and nationally funded projects may be biased in favor of the former.

To ensure that our analysis focuses on comparable projects, we consider the 2007-2013 EU programming period and exploit a policy change that occurred in 2011 (see Figure 1). In that year, the Italian government launched the Action Plan for Cohesion (APC) to accelerate the disbursement of EU funds in lagging Operational Programs (OPs).

As part of this plan, the national co-financing share of EU-funded OPs was reduced to ease the financial burden and ensure that the allocated funds could be spent within the stringent deadlines imposed by EU regulations—specifically, the duration of the programming period (N) plus an additional two years (the N+2 rule). Through the APC, selected projects from EU OPs were reassigned to newly established national programs, financed using the resources saved from the reduced national co-financing of EU projects. As a result, between 2012 and 2016, a number of EU-funded projects transitioned to a different regulatory framework under purely national rules. The crucial distinction here is between projects (e.g., a highway connector) and programs: the latter are portfolios of projects with the same purpose (e.g., improving mobility between rural and urban areas). The APC policy change was implemented at the program level, targeting underperforming OPs. However, within these programs, it is possible to identify individual projects that were progressing or performing similarly to those that remained under EU governance, making them suitable for comparative counterfactual analysis (see Figure 1).

**Figure 1. The Action Plan for Cohesion Policy change**




*Note: Squares represent Operational Programs (portfolios of projects), and dots represent individual projects. The figure illustrates the impact of the APC policy change. The first row shows the relationship between programs and projects (the subjects of the policy change). The second row depicts how the reduction of national co-financing resources, which affected the programs, impacted a sample of projects within those programs. These projects exited the EU OPs and continued their implementation within the newly created National Programs, funded by resources saved from the reduction in national co-financing (third row). The fourth row explains our approach: comparable projects are selected from those that exited (treated) and those that remained in the EU OPs (counterfactual).*

A total of 215 infrastructure projects[4] were originally part of an EU program but were later reassigned to a national program due to the APC reshuffle described above. These projects were distributed across several Italian regions, with 86 of them concentrated in a single region: Apulia.[5] The transfer to nationally managed programs occurred in 2014 (see Table 1 for details). This group of projects constitutes our treated group, i.e., projects that transitioned from EU to national programming at a specific point in time. We compare these with a control group of 1,217 infrastructural projects located in Apulia that remained under EU Operational Programs (OPs) and did not undergo any governance switch..

**Table 1. Distribution of Apulia Infrastructure Projects Between Treated and Control Groups**

| | Switching projects (Treated) | Remaining EU-projects (Control) |
|---|---|---|
| *February 2014* | *21* | |
| *August 2014* | *64* | |
| *December 2014* | *1* | |
| **Total** | **86** | **1,217** |

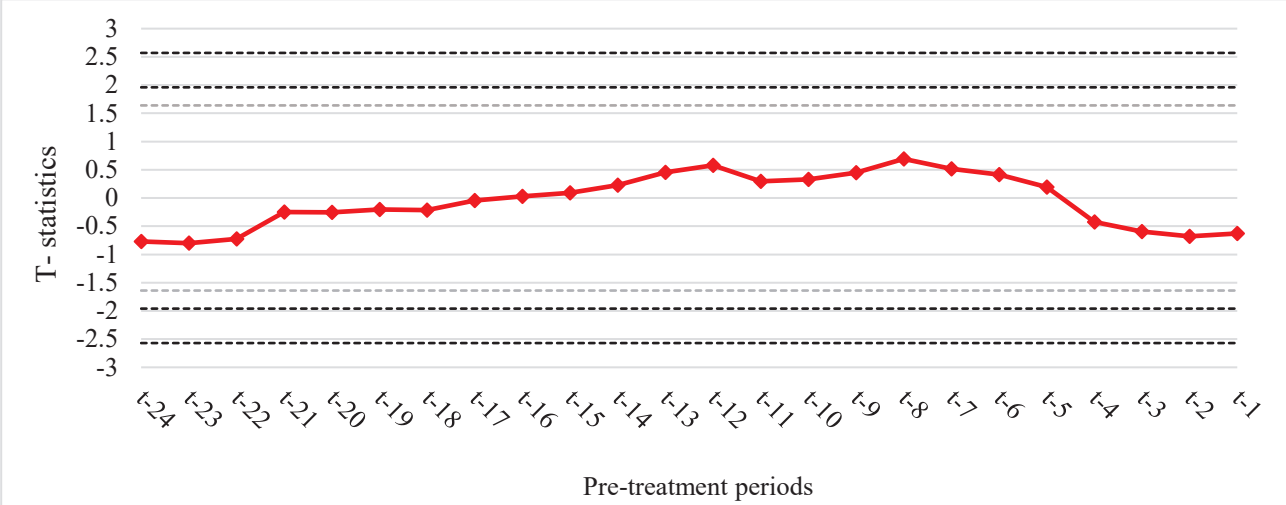
*Note: Infrastructural projects funded in 2007-2013 EU OPs and located in Apulia.*
*Source: Sistema di Monitoraggio Unitario*

[4] We focus on infrastructural projects, for which we have a time period of a sufficient length to be monitored to assess financial execution. Other types of projects, such as incentives to firms, end with a single payment. In Italy infrastructural projects absorb roughly 80% of total Cohesion Policy resources (www.opencoesione.gov.it).

[5] We focus on infrastructural projects located in Apulia because of the presence of untreated projects in the same region fully comparable in terms of projects' characteristics (i.e. typology, target, theme and so on).

Crucially, in the pre-treatment period (i.e., before the switch), the financial progress of the switcher projects was not different from that of the control group. Figure 2 shows that the two groups displayed similar financial execution not only for one period before the treatment but also for the entire pre-treatment period of interest.[6]

**Figure 2 – Dynamic T-test for Financial Progress**




*Notes: Financial execution is computed as the share of cumulated payments over the total cost of the project. The red line represents the point estimation of the T-statistics for each month before the switch, comparing treated and control projects. The dotted grey and black lines represent the critical values 1.64, 1.96 and 2.57, respectively.*
*Source:Authors' elaboration on Sistema di Monitoraggio Unitario data.*

In summary, we compare projects that were all initially selected for EU programming and exhibited indistinguishable financial execution trends. However, due to a policy decision unrelated to the financial performance of individual projects but rather to the broader programs they belonged to, a subset of these projects was transferred from EU to national governance. This shift represents a significant change in the institutional and administrative framework under which projects operate, altering the rules, oversight mechanisms, and financial execution procedures applied to them. While this is not a fully randomized experimental setting, the exogenous nature of the reassignment closely approximates a quasi-experimental design, allowing us to isolate the impact of governance structures on financial execution outcomes and project implementation efficiency.

## 3. Methodology

Our method consists of a non-parametric generalization of the Difference-in-Differences (DiD) estimator expressly developed for time-series cross-sectional data (see Imai et al., 2023). This methodology effectively handles staggered treatment adoption (as shown in Table 1) and performs well in situations with a small number of treated units, without relying on parametric assumptions.[7]

[6] For each project, we can observe the entire timeline of the financial disbursement (payments done from the program management to the project beneficiary) on a monthly basis. This allows us to compute how the financial progress of the project progresses over time.

[7] Recent literature has shown that estimates from TWFE models in which the timing of policy changes are staggered over time can be biased when the treatment effect varies over time (see, among others, Callaway and Sant'Anna, 2021; De Chaisemartin and D'Haultfœuille, 2020; Imai and Kim, 2021). Indeed, in case of staggered adoption, TWFE estimators make both "clean" comparisons between treated and not-yet-treated units, as well as "forbidden" comparisons between units that are both already-treated (De Chaisemartin and D'Haultfœuille, 2022). In addition, the estimation of the ATT by TWFE corresponds to a weighted average of causal effects for each treatment group (treatment groups are defined on the basis of the year of treatment) in

The key econometric challenge in analyzing the effects of the treatment (switch to national programming) is that projects experiencing such a variation may systematically differ from the control (remaining in the EU programming) projects. To derive an appropriate group of counterfactual projects, we adopt a three-step matching procedure. In particular:

1. For each treated project, we select a set of control projects ($M_i$) that did not experience the move, and which show a very similar pre-treatment trend in the financial execution – our outcome variable.
2. We restrict the set of ($M_i$) projects by means of an exact matching that accounts for a. the province where the project is located (i.e., 6 provinces), b. the typology of the project (i.e., new realization, renovation, extraordinary maintenance/enlargement) and c. the level of management of the OP to which the project belongs (i.e., national or regional).
3. We use the "CBPS.weighting" matching method, which assigns weights in such a way that the five control units more similar to the treated units will be assigned higher weights.

After the matching procedure 81 treated projects (over 86) find comparable control units. For each treated project, we estimate the counterfactual outcome using the weighted average of the control units in the refined matched set. Finally, we compute the DiD estimate of the Average Treatment Effect among Treated (ATT) for each treated observation and average it across all treated observations.

We define the average treatment effects among treated (ATT) as:

$$\delta(F,L) = E\{Y_{(i,T+F)}\left(X_{i,t} = 1, X_{(i,T-1)} = 0, \left(X_{(i,T-l)}\right)_{(l=2)}^{L}\right) - Y_{(i,T+F)}\left(X_{i,T} = 0, X_{(i,T-1)} = 0, \left(X_{(i,T-l)}\right)_{(l=2)}^{L}\right) | X_{i,T} = 1, X_{i,T-1} = 0\}$$

Where the treated projects are those which experienced the move, i.e., $X_{(i,T-1)} = 0$ and $X_{i,T} = 1$.

In this definition $Y_{(i,T+F)}\left(X_{i,T} = 1, X_{(i,T-1)} = 0, \left(X_{(i,T-l)}\right)_{(l=2)}^{L}\right)$ is the potential outcome under a treatment change, whereas $Y_{(i,T+F)}\left(X_{i,T} = 0, X_{(i,T-1)} = 0, \left(X_{(i,T-l)}\right)_{(l=2)}^{L}\right)$ represents the potential outcome without the treatment, i.e. $X_{(i,T-1)} = 0$ and $X_{i,T} = 0$. In our case, δ (24, 24) represents the average causal effect of the project move on the outcome, 24 months after the treatment (F), while assuming that the potential outcome depends on the treatment history up to 24 months earlier (L).[8] We then compute the DiD estimate of the Average Treatment effect among Treated (ATT) for each treated observation and then average it across all treated observations. Formally:

$$\hat{\delta}(F,L) = \frac{1}{\sum_{i=1}^{N}\sum_{t=L+1}^{T-F} D_{ij,t}} \sum_{i=1}^{N}\sum_{t=L+1}^{T-F} D_{i,t}\left\{\left(Y_{i,T+F} - Y_{i,T-1}\right) - \sum_{i'\in M_i} \omega_{it}^{i'}\left(Y_{i',T+F} - Y_{i',T-1}\right)\right\} \quad (1)$$

## 4. Results

### *4.1 Baseline.*

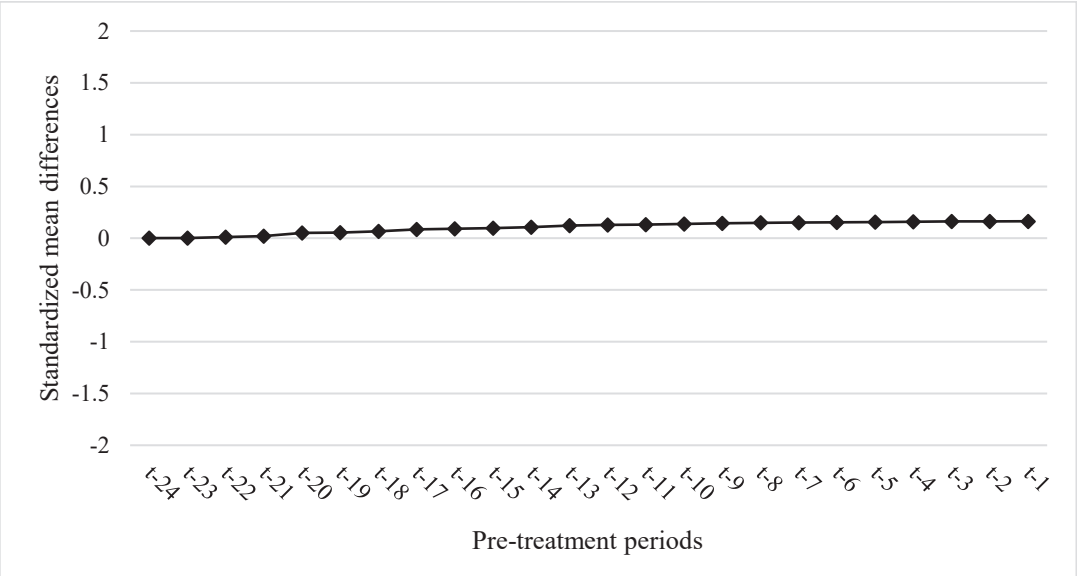
First, we verify whether the Parallel Trend Assumption is met. To this end, the balance plot for the lagged outcome – the financial progress - is reported in Figure 3. It clearly emerges that the level of imbalance remains stable across the 24 pre-treatment months and fully within the (-1, 1) range of the standard deviation. As the level of imbalance for the lagged

which the weights are not proportional to the number of treatments and may even be negative in some cases (De Chaisemartin and D'Haultfœuille, 2020). Differently from the TWFE estimator, the non-parametric generalization of the DiD estimator that we use does not suffer from these drawbacks.

[8] An important step in this procedure is the choice of a non-negative integer as the number of leads (F) and lags (L). Leads capture the outcome of interest measured at F time periods after the administration of treatment, where F=0 represents the contemporaneous effect. L is the number of lags to adjust for. The choice must take into account the bias-variance trade-off: while a greater value improves the credibility of the unconfoundedness assumption, it also reduces the efficiency of the resulting estimates by reducing the number of potential matches. We chose F=24 and L=24. Because the choice of F and L is arbitrary, we test the sensitivity of the empirical results to this choice in the Robustness Section.

values of our dependent variable stays relatively constant over the entire pre-treatment period, we can conclude that the parallel trend assumption is satisfied. Choosing a relatively large value of L (in our case: L=24, the maximum possible value given the available data) increases the credibility of the parallel trend assumptions.

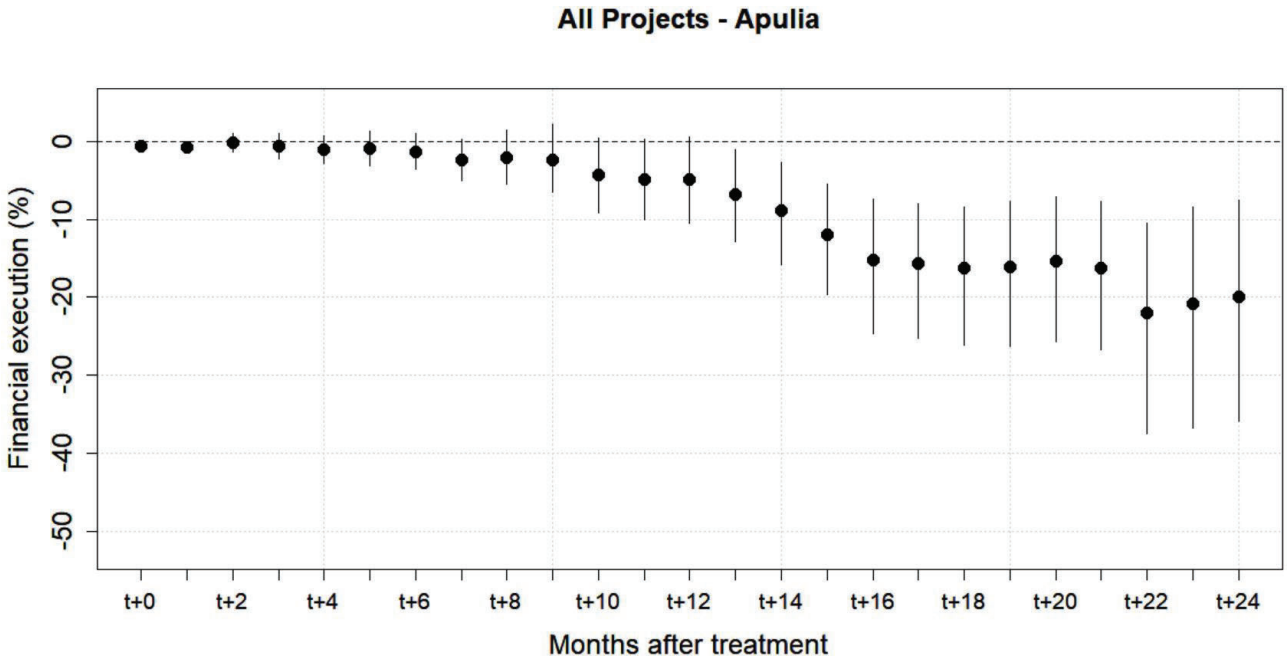
**Figure 3 – Pre-Treatment Trend of the Outcome Between Treated and Control Units**




*Notes. The y-axis refers to the standardized mean differences in terms of Financial execution between treated and counterfactual projects before the treatment. Financial execution is computed as the share of cumulated payments over the total cost of the project.*
*Source: Authors' elaboration on Sistema di Monitoraggio Unitario data.*

Turning to the core of the analysis, Figure 4 shows the ATT over the 24 months (F, leads) following the transition (Model 1). Our findings indicate that that financial execution for projects transferred to national programming begins to decelerate as early as 10 months after the shift, compared to similar projects that remained under the EU framework. After 24 months, the delay is substantial and statistically significant, reaching nearly -20%. This suggests that delays in financial execution tend to accumulate over time, with no evidence of recovery in the medium term.

**Figure 4 – The Effect of Switching from the EU to the National Regulatory Regime on Financial Execution**

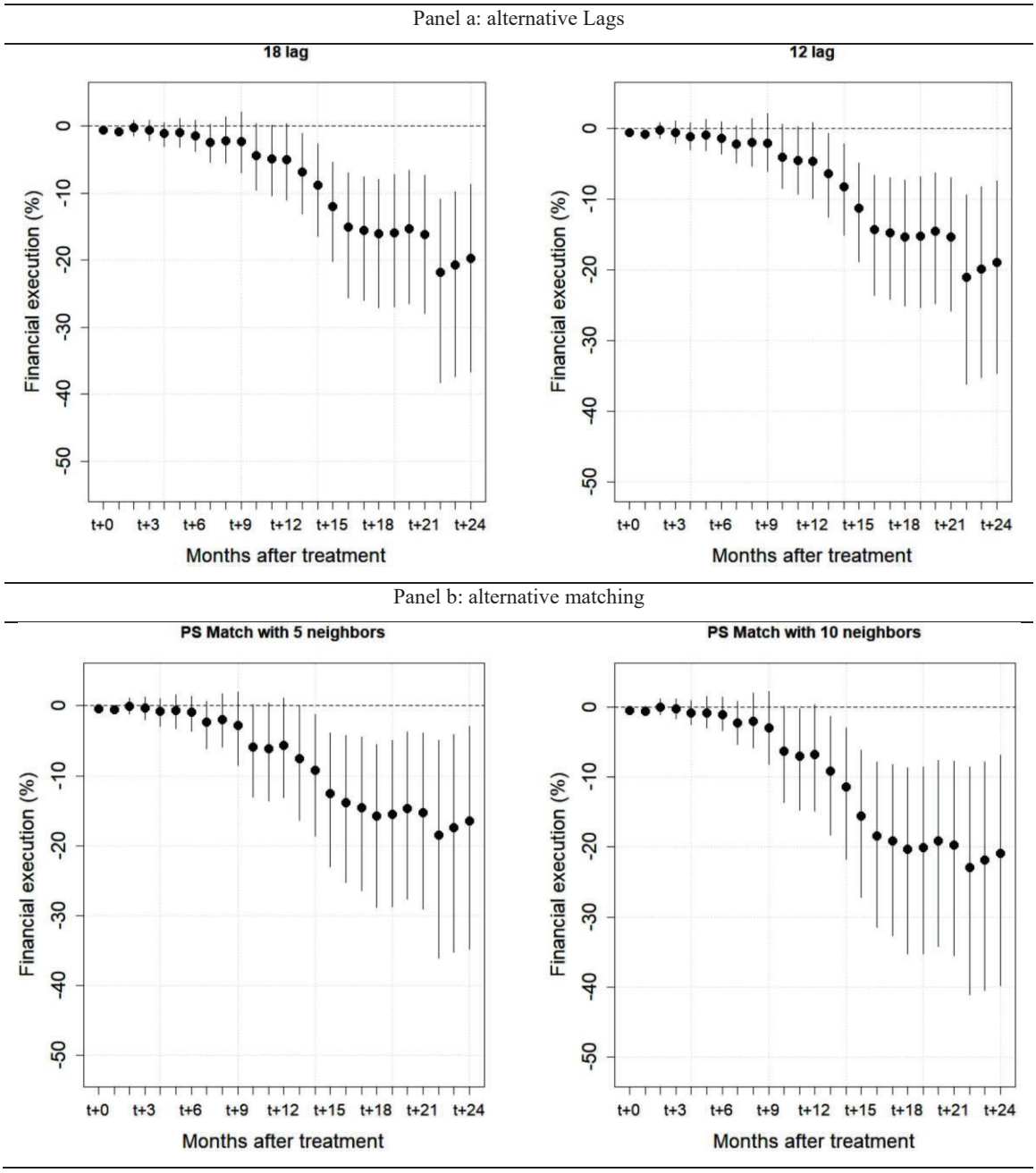



*Notes. The Figure shows the point estimates as well as the confidence intervals at the 5% level of significance. The outcome variable is the financial execution, computed as the share of cumulated payments over the total cost of the project.*
*Source: Sistema di Monitoraggio Unitario.*

### *4.2 Robustness.*

To test the sensitivity of our results, we replicate the analysis using different model specifications. In Figure 5, we replicate the main analysis using alternative choices in terms of number of Lags (L) and of matching. In particular, in *Panel a* we change the number of lags, controlling for 18 and 12 months, respectively. As shown, the results are not sensitive to the different number of lags for which we control for. In *Panel b* we substitute the "CBPS.weighting" matching method with a Propensity Score Matching (PSM) selecting respectively five (left) and ten (right) neighbors for each treated unit. As shown, also these results are in line with the main analysis.

**Figure 5. Robustness Checks: Analysis with Alternative Lag Selections and Matching Methods**

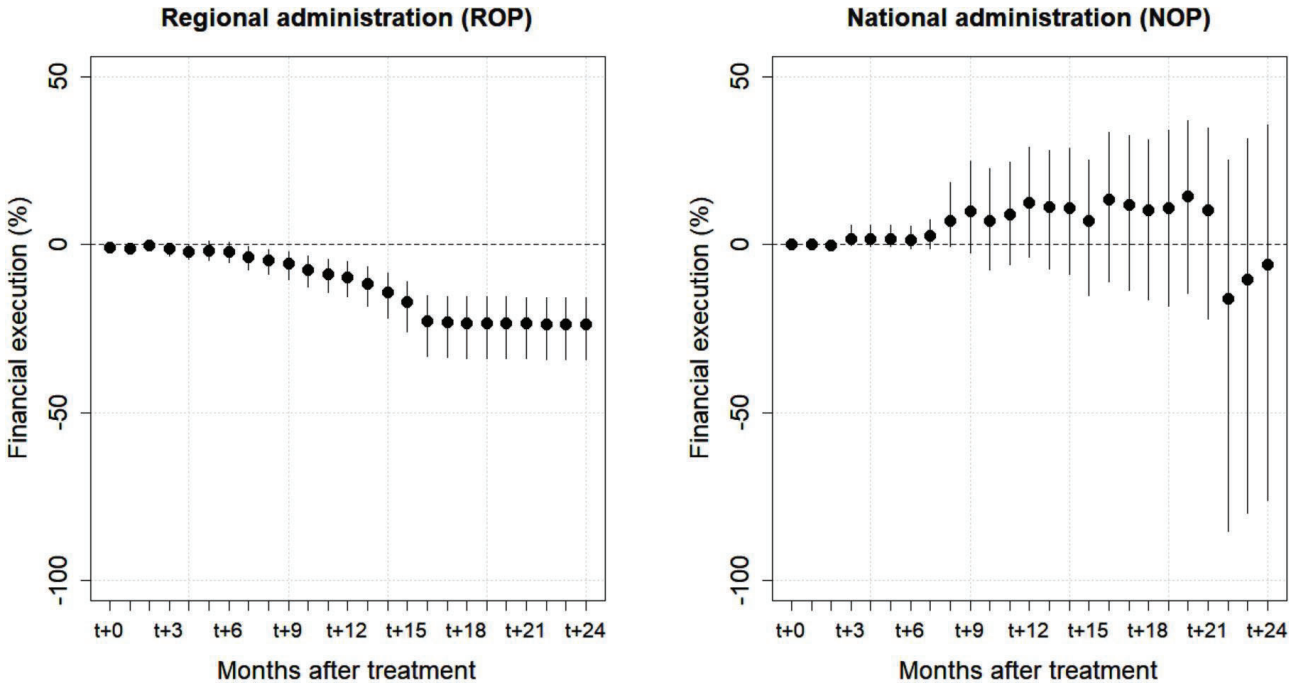



*Notes. The Figure shows the point estimates as well as the confidence intervals at the 5% level of significance. The outcome variable is the financial execution, computed as the share of cumulated payments over the total cost of the project.*
*Source: Sistema di Monitoraggio Unitario.*

### 4.3 *Heterogeneity*.

Since Cohesion projects are implemented within programs (EU or national) that can be administered either at the central (National OPs - NOPs) or at the regional level (Regional OPs - ROPs), we investigate if the level of administration affects our result (Figure 6). Among the projects that switched from the EU to the National regulatory regime there are 64 projects that are moved into a ROP and 17 projects that are move into a NOP active in Apulia. Replicating the analysis for the two sub-samples of projects, we find that the results remain statistically significant only for those projects reassigned to a ROP. This suggests that delays primarily accumulate when projects are administered at the regional level, whereas the effect is less pronounced when management remains at the central national level.

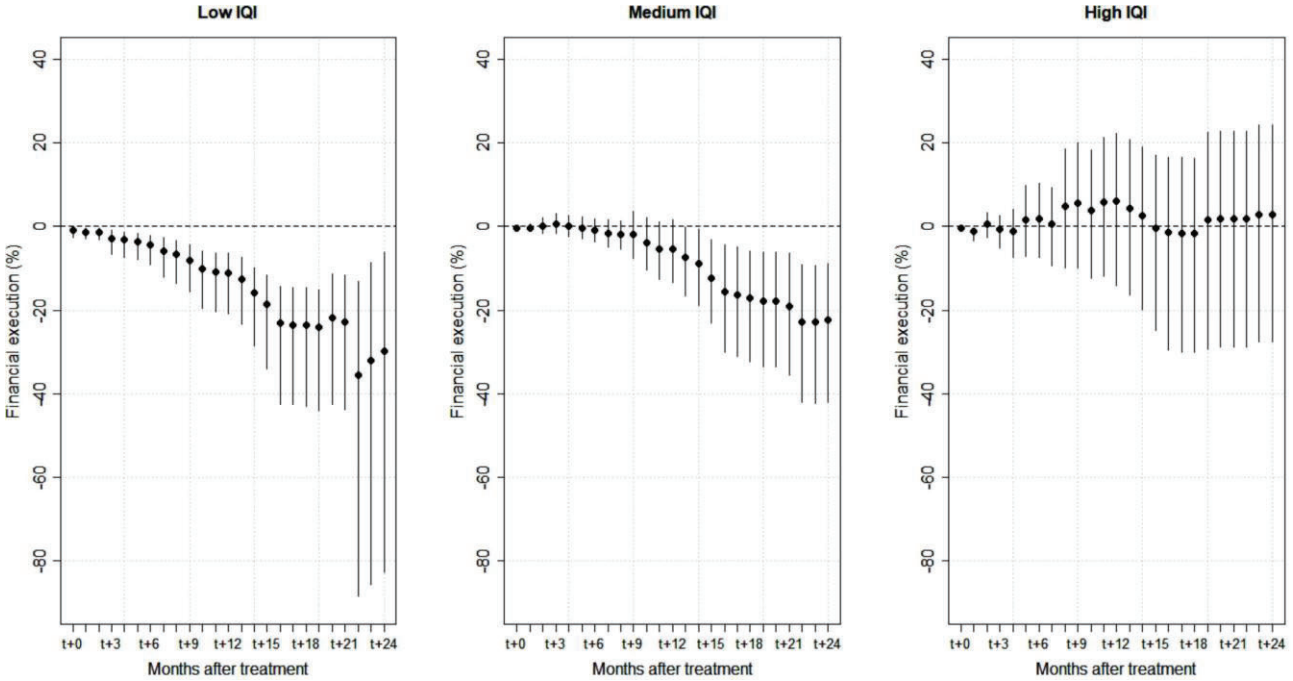
**Figure 6 – Effect of the Switch by Administrative Level of Program Management**




*Notes. The Figure shows the point estimates as well as the confidence intervals at the 5% level of significance. The outcome variable is the financial execution, computed as the share of cumulated payments over the total cost of the project.*
*Source: Authors' elaborations on Sistema di Monitoraggio Unitario data.*

We then explore how the effect of the switch from EU to national rules and procedures changes for projects located in provinces with different levels of institutional quality. The hypothesis is that in areas with weaker institutional quality, the stringent EU rules protect project implementation from corruption and rent-seeking more effectively than national ones. We rely on the provincial Institutional Quality Index (IQI) proposed by Nifo and Vecchione (2021), which accounts for five major dimensions of IQI: "the degree of citizens' participation in social and public life and processes set up to select the governing class (Voice and Accountability), the quality of public service and the policies formulated and implemented by the local government (Government Effectiveness), the ability of government to promote and formulate effective regulatory interventions (Regulatory Quality), the perception concerning law enforcement both in terms of contract fulfilment, property rights, police forces, activities of the magistracy and crime levels (Rule of Law), and the degree of corruption of those performing public functions both in terms of illegal gains and private proceeds acquired to the detriment of society (Control and Corruption)" (Nifo & Vecchione, 2021, p. 1). We divide our sample into three tertiles defined by the IQI: provinces with a low value of IQI (first tertile, IQI lower than 0.41), medium IQI (second tertile, IQI greater than 0.41 and lower than 0.43), and high IQI (third tertile, IQI over 0.44). We have 24 treated projects located in provinces with lower IQI (Foggia and Taranto), 42 treated projects in provinces with medium IQI (Brindisi and Lecce), and 15 treated projects in provinces with higher IQI (Bari and Barletta-Andria-Trani). Figure 7 suggests that delays in financial execution due to the switch are more pronounced in areas with weak or medium quality local institutions, whereas projects in provinces with higher IQI are less affected by the move to nationally managed programs. In areas with strong institutional quality, there is less need for stringent EU rules to protect project implementation from corruption and rent-seeking.

**Figure 7 – Effect of the Switch by Local Institutional Quality**




*Notes. The Figure shows the point estimates as well as the confidence intervals at the 5% level of significance. The outcome variable is the financial execution, computed as the share of cumulated payments over the total cost of the project.*
*Source: Authors' elaborations on Sistema di Monitoraggio Unitario data.*

## 5. Conclusions and Policy Reflections

This study offers a novel contribution to the literature on place-based policies by empirically evaluating the impact of governance structures on the financial execution of infrastructural projects. Leveraging a quasi-natural experiment in Italy, where within a policy change introduced during the 2007-2013 programming period some EU-funded projects were shifted to national management, we find that the stringent oversight and structured procedures of the EU significantly enhance project performance. Specifically, financial execution for projects transferred to national programming begins to decelerate noticeably within ten months, resulting in statistically significant delays of nearly 20% after 24 months. These delays are more severe when projects are handled at the sub-national level rather than by the national government.

The findings of this study offer important insights into the governance of place-based policies in multi-level systems where supranational, national, and regional (sub-national) institutions interact in policy implementation. A key takeaway is the distinctive role of the European Union (EU) governance framework in enhancing policy effectiveness via financial execution—a role that is often overlooked in debates on decentralization and subsidiarity. The added value of EU governance lies not simply in the financial resources it mobilizes, but in the institutional framework it provides to enhance policy effectiveness: an institutional safeguard against inefficiencies that often arise in national and regional policy implementation. The results demonstrate that projects operating under EU governance structures exhibit better financial execution compared to those transferred to national and regional management. This is not merely a reflection of centralization vs. decentralization, but rather an indication that the EU provides a governance model that enhances policy credibility, mitigates local inefficiencies, and enforces financial discipline through standardized oversight mechanisms. This aligns with theories of institutional constraints as a mechanism to mitigate governance failures. By imposing rules,

conditionality, and oversight mechanisms, the EU governance structure acts as a commitment device that helps national and regional authorities stay on track with policy execution.

An additional key finding of the study is that among the transferred projects, those implemented within regional (sub-national) programs experience the most severe delays in financial execution. This suggests that without these EU safeguards regional authorities, particularly in weaker governance contexts, struggle to meet the financial execution requirements and administrative burdens of infrastructure projects, weakening the overall effectiveness of place-based policies. While decentralization is often justified on the grounds that regional and local governments possess better knowledge of local needs, our findings suggest that when institutional capacity is insufficient, in absence of institutional constraints sub-national governance may lead to longer delays and suboptimal policy execution. This is particularly relevant for infrastructure projects, where delays in financial execution can result in cost overruns and reduced economic impact. This finding aligns with concerns about the principal-agent problem in decentralized governance: when regional authorities lack the technical expertise or incentives to implement projects efficiently, policy effectiveness suffers. While supranational and national oversight mechanisms can mitigate inefficiencies, reliance on regional governments without sufficient institutional quality may create governance failures that weaken policy outcomes.

In terms of practical policy implications, given the demonstrated advantages of EU governance structures, policymakers should focus on reinforcing—rather than diluting—EU oversight in multi-level governance systems. A key priority should be to strengthen performance-based conditionality and institutional assessments in funding mechanisms. Budget allocations should be more explicitly tied to institutional performance and governance capacity, ensuring that funds are directed toward regions that demonstrate administrative effectiveness. Introducing ex-ante governance assessments would further enhance this process by evaluating whether regional authorities possess the necessary administrative capacity to implement large-scale projects efficiently. This would help mitigate the risks associated with weak institutional environments and improve overall policy execution.

In addition to strengthening conditionality, there is a pressing need to enhance real-time monitoring, evaluation and administrative support for sub-national governments. The EU should expand its financial execution monitoring tools to provide early intervention mechanisms for regions experiencing implementation challenges. By doing so, inefficiencies and delays can be detected and addressed proactively rather than retrospectively. At the same time, technical assistance programs should be broadened to help regions overcome governance bottlenecks, particularly where institutional capacity is limited. Providing targeted administrative support would ensure that sub-national governments can meet EU requirements more effectively, reducing delays and improving the overall impact of policy interventions.

Finally, policymakers should actively promote institutional convergence between EU, national, and regional governance frameworks. One of the EU's key contributions is the harmonization of governance practices across Member States, ensuring greater transparency, efficiency, and accountability in public administration. Extending EU procedural frameworks and transparency requirements to national and regional projects would not only improve financial execution within EU-funded programs but also create positive spillover effects for domestically funded initiatives. Furthermore, Member States should be incentivized to adopt EU best practices in monitoring, reporting, and institutional performance benchmarks, ensuring that governance improvements are embedded at all levels of public administration.

The present study also opens relevant avenues for future research. The first avenue for future research concerns the long-term impacts of governance-induced financial execution delays on economic outcomes. While timely spending is a

necessary condition for effective policy implementation, it is not a sufficient one. Future studies should examine whether EU governance structures not only accelerate financial execution but also lead to more productive public investments, particularly in areas such as infrastructure, innovation, and human capital development. Second, given the scale and importance of Next Generation EU (NGEU) and its reliance on performance-based disbursements, future research should investigate whether the governance mechanisms embedded in this program can serve as a model for broader fiscal governance reforms. Understanding whether NGEU conditionality mechanisms succeed in improving financial execution and policy effectiveness will be crucial for shaping the next generation of EU (and national) policies.

These research directions would not only enhance our understanding of multi-level governance and public finance efficiency but also provide valuable insights for policymakers seeking to optimize the design and implementation of place-based policies. By integrating institutional quality and governance efficiency, future research can contribute to a more comprehensive framework for assessing the effectiveness of decentralized policy implementation within the EU and beyond.

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