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## **The EU's Efforts to Influence the Absorption of Cohesion Policy Funds: A Comparative Analysis of Bulgaria and Romania**

Dimitrova, Plamena

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# The EU's Efforts to Influence the Absorption of Cohesion Policy Funds

*A Comparative Analysis of Bulgaria and Romania*



**Universiteit  
Leiden**

**Name: Plamena Krasimirova Dimitrova**  
**Student Number: s3189066**  
**Programme: MA International Relations**  
**(European Union Studies Track)**  
**Supervisor: Dr. David Moloney**  
**Second Reader: Dr. Joyce De Coninck**  
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## Abstract

Absorption capacity has been argued to be an essential indicator of the effectiveness of cohesion policy in European Union (EU) member states. Using the Principal-Agent framework to study the implementation stage of cohesion policy, this thesis aims to find whether the Commission as a principal can influence the absorption capacity of countries (the agents) through its control mechanisms, namely the ex-ante conditionalities and priority axes. By doing a comparative analysis of Bulgaria and Romania, findings suggest that while Bulgaria did not follow the Commission's rules and absorbed a significant amount of funds, Romania, which strictly followed EU's conditionalities, had its absorption capacity negatively influenced by the Commission. This negative influence is even more evident with the increased funding a member state receives for some of its operational programmes as larger financial assistance requires the country to follow more EU rules.

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## List of Abbreviations

<b>CF</b>	Cohesion Fund
<b>CVM</b>	Cooperation and Verification Mechanism
<b>ECA</b>	European Court of Auditors
<b>ERDF</b>	European Regional Development Fund
<b>ESF</b>	European Social Fund
<b>ESIF</b>	European Structural and Investment Funds
<b>ExAC</b>	Ex-ante Conditionalities
<b>LIOP</b>	Operational Programme Large Infrastructure
<b>MA</b>	Managing Authority
<b>MFF</b>	Multiannual Financial Framework
<b>OP</b>	Operational Programme
<b>OPTTI</b>	Operational Programme Transport and Transport Infrastructure
<b>PAX</b>	Priority Axis (Axes)
<b>TEN-T</b>	Trans-European Transport Network

## 1. Introduction

Since the signing of the Treaty of Rome, there have been talks on the issue of reducing regional economic differences between member states in the Community. Cohesion policy became a reality in the mid-1970s when the European Regional Development Fund (ERDF) was created in order to assist the new members of the European Union (EU) (Heinelt and Petzold, 2018). Due to its gradual increase in funding from the EU's budget, the policy has become heavily scrutinized for its effectiveness in reducing the regional inequality in member states. However, a significant challenge to this effectiveness was posed by the large expansion of the Union in 2004. The addition of new countries created issues with the overall implementation of funds because the new states were undergoing a transition in their economies and politics as they had previously imposed different values, policy goals, and institutional frameworks. Nevertheless, cohesion policy was meant to help them converge their economies with the developed countries as their GDP per capita was already lagging behind (Kersan-Škabić and Tijanić, 2017), and in order for these funds to be effective, a certain conditionality needed to be put in place (Bachtler and Ferry, 2013). In this sense, the conditionality mechanism that the EU imposed was regarded as a helpful tool for the newer entrants to not only adapt to the requirements of the policy but also solve their internal issues concerning absorption.

Although cohesion policy conditionality has existed for an extended period of time and presents one of the most prominent issues concerning the effectiveness of the policy, there is little scholarly work on its influence on the absorption of EU funds. Having been constantly improved, the cohesion policy's conditionalities were meant to help the Member States strengthen their use of the cohesion policy. Therefore, for the recently finished programming period of 2014-2020, the Commission connected several kinds of conditionalities to cohesion policy to improve the states' policy performance. In this case, the Commission's efforts in dealing with the absorption problems of new EU entrants and the extent to which these efforts have been effective present an ideal possibility to explore how cohesion policy implementation can be improved in future programming periods. In light of these issues, this research argues that the Principal-Agent framework can help investigate the Commission's role as a principal in influencing the Member States' overall implementation of cohesion policy funds. Since member states are acting as the agents in this relationship with the

Commission, they are most likely to decide not to follow the conditionalities that accompany cohesion policy, thus, engaging in agency drift. In this case, countries will pursue their own interests compared to the Commission and implement the funds however they see fit (da Conceição-Heldt, 2013). Moreover, the relationship between the Commission and the states might be further complicated by the size of the funds going into the countries, as larger funding can be accompanied by greater responsibility for the agent to comply with the principal's conditionality. By studying the implementation of funds in the cases of Bulgaria and Romania in the programming period of 2014-2020, this research finds that if an agent decides to follow the principal, its absorption capacity will be negatively influenced. Moreover, the thesis further maintains that the amount of funding can also affect the successful influence of the Commission on the country's absorption. If a country receives more financial assistance from the EU, it will have difficulties absorbing the funds.

The first part of the thesis will expand on the debate about the effectiveness of cohesion policy and the absorption capacity problems, as well as the EU's role in implementing funds. Then, the research will expand on the Principal-Agent framework and investigate how this theory can explain the Commission's role in the implementation stage of cohesion policy. The following methodology section will explain the chosen methods and the data collection, which will then be followed by the analysis of the cases where both Bulgaria and Romania will be compared in terms of their compliance with the overall ex-ante conditionalities (ExACs) imposed by the Commission and the Priority Axes for specific Operational Programmes (OPs). For each case chosen in this research, there will be a section expanding on their management of the funds and how they might go against their principal. The following section will talk about the influence of the size of the funds the states receive from the EU and how this could affect the countries' absorption capacity and ability to comply with the requirement to set specific priorities for their OPs to follow. Finally, a discussion section will delve deeper into the issues found in the analysis, and a conclusion will summarize the main results and propose how future research can explore the issue of the Commission's control mechanisms in cohesion policy further.

## 2. Literature Review

### *2.1 Impacts of the cohesion policy*

The literature is indecisive on whether the EU's cohesion policy can level out the economic differences between the regions and the countries. On the one hand, some academic work found that the funds could benefit countries on the national and sub-national levels (Bachtrögler-Unger and Hammer, 2018; Becker, Egger and Ehrlich, 2010; Charasz and Vogler, 2021). In order to experience these positive impacts from the European Structural and Investment Funds (ESIF) that come with this policy, a sound macroeconomic and fiscal policy, as well as the exposure to socio-economic development, is necessary for the member states (Tomova et al., 2013). This would suggest that if the countries' governments follow conditionalities that can improve their fiscal stance and other internal structures, the funds are more likely to be adequately utilized. In this case, conditionalities can be seen as essential tools that improve the effectiveness of cohesion policy.

On the other hand, some scholars claim that funds might not have such positive effects on the economic growth of the recipients, especially when it comes to minimizing the regional disparities (Boldrin and Canova, 2001). According to them, economic differences between the EU15 regions have not changed much before the 2000s. If the EU's main objective at that time was to converge the development of the countries and their regions, then it had not achieved its goal. Such trends are also noted in further research, arguing that economic differences have increased between the member states after the 2008 financial crisis and cohesion policy was expected not to do much more than just dampen the effect of such differences (Farkas, 2013). However, other scholars have observed the opposite results. By investigating EU's documents and holding interviews with EU officials, it has been argued that the 2008 crisis presented a 'critical juncture' that built a new path for cohesion policy to be more effective (Casula, 2021). In fact, the new control mechanisms introduced for cohesion policy in the following programming period of 2014-2020 were seen as the tools that would help the countries to find a way to solve the economic issues they were experiencing after the 2010s.

However, these differing views about the effectiveness of the ESIFs might result from the various methodologies authors use to study cohesion policy. Focusing on new research methods, Darvas, Mazza and Midões (2019) explore the 'unexplained economic growth' of



different regions and conclude that the best performing areas have fewer priorities for the funds, their operational programmes (OPs) have a longer duration and have lower national co-financing. However, this is not the case for regions in Southern and Eastern Europe that have heterogeneous interests in implementing the regional policy programmes. These findings confirm that there are differences between the member states' interests in how to implement cohesion policy funds. Although providing sufficient evidence about the final results from the EU funding, the literature on the cohesion policy's impact does not highlight the internal political reasons why these results occur and what role the Commission plays in achieving such outcomes.

## *2.2 Countries' ability to absorb the funds*

Some academic works have tried to partially fill the gap mentioned above by exploring how the cohesion policy funds fail to provide incentives for Central and Eastern European (CEE) states to stimulate their economies in the different regions. Šumpíková, Pavel, and Klazar (2004) highlighted the importance of countries' absorption capacity as a way to manage the spending of funds. By studying the case of the Czech Republic, the authors maintained that the funds did not improve the capacity of the regional and local implementation structures. It has been further argued that in their early years of accession, states might have experienced difficulties in absorption due to their lack of resources to co-finance the projects or the fact that the authorities lacked a long-term vision of the future (Georgescu and Zaman, 2009). Focusing on Romania, the authors studied the effects of macroeconomic factors on structural funds. They estimated that immediately after its accession, the Romanian government's ability to absorb the ESIF equalled only forty percent. Similar scholarly work confirms these findings by showing how states in the Southern and Eastern periphery tend to invest less in areas of development that will provide long-term growth for their economy (Medve-Bálint, 2018) or improve their absorption capacity. Investing in projects that do not incentivize sustainable economic improvement could also result from the regional authorities' lack of experience and qualifications responsible for implementing the projects and the inability to comply with the terms of financing provided by the EU (Georgescu and Zaman, 2009). The EU supports absorption; however, sometimes, undesired regional strategies that come from the lack of administrative capacity could increase the level of absorption while at the same time not helping the economic growth of the country (Aivazidou, Cunico and Mollona, 2020). This

argument supports the idea that governments often find it challenging to implement EU policies in the early years of their accession because of the lack of internal cohesion they have.

In line with this idea, some scholars have stated that successful cohesion countries that managed to absorb the funds in the 2000-2006 programming period applied different forms of management structures – either decentralized managing systems like the one in Ireland or a more centralized framework like the one in Estonia and Slovenia (Markovič Hribernik, Kirbiš and Vek, 2008). In this case, the institutional structure of the countries plays a vital role in their ability to absorb the cohesion policy's funds; however, such structure could vary from country to country. Evidence for the socio-economic factors impacting the amounts of funds received has also been provided. In this case, more developed regions are better able to absorb the ESIFs, whereas less wealthy regions do not have the same ability, which creates a paradox for the implementation of the cohesion policy (Kersan-Škabić and Tijanić, 2017). Therefore, if the Commission imposes conditionalities, these need to target the national structures of states. In this way, states might be able to solve their internal issues and achieve more cohesion between their regions.

The academic literature has tried to explore the effects of internal political issues on ESIFs' implementation. In particular, countries may often not have enough absorption capacity because they face corruption problems (Georgescu and Zaman, 2009; Matei and Matei, 2008). The administrative capacity and the processes that help with absorption might depend on the political factors like public authorities in the country that facilitate such processes (Surubar, 2016). Therefore, if the political factors in the country are not efficient enough, the states will be less likely to spend the funds provided by the EU and might suffer from increased corruption. However, not all countries experience such inefficiencies. Charasz and Vogler (2021) have found evidence that in some cases European Union's funds from the cohesion policy could increase the local state capacity in a member state, thus reducing the administration and corruption issues. According to the authors, the EU implies a selective allocation of aid, which could affect the local bureaucracy to expand more due to the increased competition for such funds. However, it might be the case that expanding the bureaucracy could further complicate the issues related to the misuse of funds and lack of administrative quality.

Although the research focusing on internal political issues is very informative, it does not consider the overall government's motives when following the rules on cohesion spending. If we are to understand the cohesion policy's full effect on absorption capacity, we would need to explore how the European Union might have controlled for or exacerbated all the abovementioned issues. It should also be noted that the Commission's role in the process of countries' funds absorption is further ignored in the studies outlined above, creating issues with the reliability of the research's findings.

### *2.3 European Union's response to the absorption capacity*

Lacatus and Sedelmeier (2020) have shifted the focus of studying policy implementation to the monitoring mechanism adopted by the European Union itself. They have focused on a tool called the 'Cooperation and Verification Mechanism' (CVM) that temporarily monitors corruption and argued that this tool was reasonably effective in Romania, where it enforced the institution-building process, whereas in Bulgaria, it was much less efficient (Lacatus and Sedelmeier, 2020). This tool for controlling corruption is one of the methods that the Commission has initiated to have better monitoring abilities over the newer member states. However, as stated in the research, without having an enforcement mechanism, this monitoring tool available for the Commission will not be as effective. In terms of cohesion policy, the Managing Authorities (MAs) are responsible for monitoring the implementation of the OPs' spending. For some countries, the MAs' monitoring efforts have been somewhat successful. There have been efforts put into creating Monitoring Committees that can be controlled by the government or the MA and are charged with the task of observing the cohesion policy's OPs. Although found to be not that effective in their oversight abilities, the committees managed to create shifts in the attitude of civil servants, civil society organizations, and other partner organizations towards the EU's policy process (Cartwright and Batory, 2011). Therefore, the EU's devised mechanism for controlling the ESIFs is a crucial factor to be studied since it can affect the countries' absorption capacity. It has been noted that even the newly added audits for compliance with the cohesion policy rules have increased the administrative difficulties that countries experience (Mendez and Bachtler, 2011). Such findings would explain why the absorption capacity of countries might be hampered by stricter monitoring from the EU.

In this line of thought, one could conclude that the ultimate impact of the funds comes from the countries themselves. The member states are the actors in control of implementing cohesion policy once the funds reach the national level. However, this notion has been disputed by scholars who state that the Commission has as much, if not more, influence when it comes to reforming the regional policy and building the overall regulations of the funds, which in the end, affects the implementation of funds in the member states (Bachtler and Mendez, 2007).

In order to counter the member states' dominance in the control of EU funds, the Commission tried to introduce more conditionalities to assist the states with cohesion spending (Bachtler and Mendez, 2020). In order to study the conditionalities' effects and the intricate relationship between the Commission and states, scholarly work has mainly focused on the Principal-Agent framework. While some found that the Commission did not manage to control the implementation of funds (Blom-Hansen, 2005), others partially criticized such conclusions (Bachtler and Ferry, 2013). There are some conditionalities, like the decommitment rule, that have a strong positive effect on imposing strict rules and sanctions on the countries that spend the cohesion policy funds (Bachtler and Ferry, 2013). Other requirements may not be as effective, and worse, they could impose high costs on their implementation by the EU. Thus, the issue of whether the Commission can control the states in absorbing the funds or not is still contentious. In addition, it would seem that the newer conditionalities introduced in the 2013 reform presented the EU with new opportunities to influence the countries' funds absorption. However, at the same time, there is principal passivity when it comes to implementing sanctions if countries do not follow the conditionalities (Jašurek and Šipikal, 2021). Due to this, and the fact that the other institutions like the Parliament and the Council managed to decrease the Commission's influence over the control mechanisms, it would seem that certain actors have even more power than the Commission over the implementation of cohesion policy (Jašurek and Šipikal, 2021). Nevertheless, the idea of the Commission's influence on cohesion policy's effectiveness still seems quite unexplored through the lenses of the Principal-Agent framework and further research is needed.

Overall, the literature provides a vivid picture of the effectiveness of the EU funds and how budget recipients could increase their potential to absorb those funds by improving their

management. However, while most scholars paid more attention to the multi-level governance framework that focuses on a network of actors involved in implementing EU funds, few explored the institutions that can affect the countries' absorption abilities (Dąbrowski, Bachtler and Bafoil, 2014). This is why this research will use the Principal-Agent framework to study the programming period of 2014-2020, which has recently finished. With the focus on conditionality and a place-based approach (Avdikos and Chardas, 2016), the newer programming period seems to be targeting the competitiveness of the regions rather than their actual needs, thus deepening the regional disparities in the economic growth of the regions. Such findings show only one aspect of the somewhat problematic nature of the recent developments with the policy, but an account of the national-level problems that could challenge the states' absorption could contribute to a better understanding of the underlying issues with cohesion spending. This research will try to fill this gap by studying the European Union's mechanisms to affect the absorption capacities in Bulgaria and Romania. The objective is to see how the countries spent ESIFs in the period 2014-2020 and how they reacted to the Commission's imposed conditionalities and priorities for the accepted projects. Therefore, this research poses the question:

**To what extent is the European Commission able to influence Bulgaria and Romania's absorption capacity of cohesion policy funds for the programming period of 2014-2020?**

### 3. Theory

In the case of absorption of cohesion policy funds, member states have been shown to be in charge of the implementation of the ESIFs (Blom-Hansen, 2005). Therefore, understanding to what extent states have avoided the Commission's conditionalities during the 2014-2020 Multiannual Financial Framework (MFF), or the EU's long-term budget cycle, could illustrate whether the states have maintained complete control of the ESIFs. However, depending on whether countries are net beneficiaries or net contributors, they could have more stakes in following the requirements imposed by the Commission to ensure guaranteed access to ESIFs.

#### *3.1 Principal-Agent Theory*

The Principal-Agent approach has gathered much scholarly attention since it provides the tools to investigate different policy-making processes within the EU. Although it is based on the functionalist idea that more and more power is being gradually transferred to the supranational level, it was first used in microeconomics, where the relationship between the

capital owner (principal) and the business manager (agent) was explored (Dür and Elsig, 2011). In this case, institutions like the Commission can take the principal's role that assigns tasks to the agents (the member states) by delegating them the ability to implement certain policies.

The research of the Principal-Agent relationship usually starts by assuming that the principal is aware of the agents not following its policy objectives due to their differing interests (Dür and Elsig, 2011). In this sense, agents can decide not to pursue the principal's objectives and choose to hide information and their actions that could be sanctioned otherwise or use some of the delegated powers to achieve their desired results away from the principals' preferences (da Conceição-Heldt, 2013). In this case, the agents are involved in 'agency slippage' or drift and receive more independence when implementing policies. There could be several ways in which the principal can tackle such problems – first, before the implementation stage of a policy, the principal might be able to choose the agents with which it can work on certain objectives. In this case, the Commission can decide which Member States are most likely to comply with cohesion policy goals and assign them certain tasks (Blom-Hansen, 2005). Secondly, during the implementation stage of the policy, the principal can observe or monitor compliance with such tasks while also dealing with information asymmetry that might emerge between the principal and agents. Finally, after the implementation stage, the principal decides whether to reward or punish the agents depending on their ability to comply with the objectives. Sanctions could usually decrease the chance of the agency's drift (or when the agent shifts its original position without informing the principal). Being regarded as a negative conditionality (Rich, 2004), sanctions are more likely to affirm the principal's ability to control the policy process and avoid agency drift. However, it should be noted that these sanctions impose additional costs to the principal, and ultimately, they might not be implemented at all, which motivates agency drift even further.

Although being extensively used in EU's trade and external policies, the Principal-Agent framework has been recently utilized in other policies, like the cohesion policy. Here, particular attention is paid to the implementation of the policy's structural funds and the consequent monitoring and control mechanisms applied by the principal (the Commission) to the agents (the member states). The main issue that needs to be resolved within this framework is understanding how the principal can delegate tasks to the agents and whether

the agents decide to pursue the same policy as the principal or engage in agency drift. Such agency drifts could become a common occurrence since the agents themselves have their own policy goals that do not align with the ones of the principal.

In cohesion policy, the member states are authorized to use the ESIF once the financial resources are allocated to their governments. Here, the Commission, acting as the principal, tries to monitor the member states, which are the agents, to see whether they comply with the overall policy goals. In this case, the Commission's goals are for states to properly distribute the funds and achieve economic convergence. Interestingly enough, the Principal-Agent roles can switch depending on what stage the policy process is. During negotiations, the principals are the member states that decide on the amount of funding going into the different headings of the MFF, including cohesion policy, while the Commission does not have the right to interfere in the negotiation. In the implementation stage, the roles change – the Commission outlines the priorities for implementation and monitors the budget expenditure, acting as the principal, whereas the states are the agents. For the implementation stage of cohesion policy, the Commission provides the funding and expects the agents to implement the funds effectively, but it is up to the member states to decide on which policies they would spend the funds on. The absorption rate of the countries could show whether the EU funds have been spent or not. This would mean that the countries need to have proper authorities responsible for managing and allocating the funds. In fact, one of the conditions that the EU imposes concerns the absorption rate directly – the decommitment rule states that the structural funds provided to a member state need to be absorbed in a timely manner. This comes from the fact that slow absorption might not be beneficial for some countries, mainly net recipients because these countries have regions in need of funding.

It has been previously argued that the control mechanisms of the European Union seem weak as member states can abuse their role as the agents and use the funds to finance their own national policies (Blom-Hansen, 2005). In this case, member states, knowing that the EU's sanctioning of non-compliance is too costly, would not follow the main conditions imposed for the cohesion policy. Sanctioning is indeed costly for the Commission, but there are alternative ways of punishing agents for non-compliance – these involve the suspension of funds if the principal perceives that there are administrative irregularities on the national level or insufficient attention is paid to the policy's conditionalities. However, as the Principal-

Agent framework would suggest, the EU institutions acting as the principal might find it costly to sanction states. Thus, the agents (states) are less likely to follow the EU-imposed conditionalities for cohesion policy. In this line of thought, the Principal-Agent relationship could be quite helpful in investigating to what extent the Commission (considered as the principal) can impose control mechanisms on smaller states that joined the EU (considered as the agents) and whether Blom-Hansen's (2005) findings could be supported.

From this, it could be suggested that:

**Hypothesis 1: If the member states (agents) engage in agency drift, the Commission (principal) is less likely to influence their absorption capacity**

### *3.2 Size of the Funding*

As mentioned before, in the negotiation stage of cohesion policy, the Commission's powers of decision-making are quite limited by national interests (Princen, 2007). Member states are the ones to discuss the size of the budget and the allocation of the funds for the redistributive policies. When it comes to deciding on the EU's policies, including the ESIFs coming from the MFF budget, there is a view that some political actors have a louder voice than others when it comes to bringing an issue to the table for discussion. This is due to the fact that some countries provide more of the financial resources for cohesion policy, making them the net contributors. Moreover, there are differences when it comes to larger and smaller states influencing the policy-making process that takes place in the EU. Smaller states, and those that are the newer entrants in the EU, have been found to lack the bargaining power and financial ability to control the outcomes of the decisions taken at the supranational level (Panke, 2010). Thus, it is important to know that smaller states like Romania and Bulgaria would have lower bargaining power when it comes to influencing the decision-making in cohesion policy. They are net recipients; therefore, it could be expected that these states will adhere to the rules that come with cohesion policy implementation. Nevertheless, once the funding reaches the national level, the government can decide where to spend the financial resources even though they need to follow specific rules in implementation.

The Commission's conditionality on the Member States might differ regarding the size of the funding being allocated to the countries. It has been found that small states, which are relatively poor, are more likely to pay a smaller share of the costs of the expenditure side of



the EU budget and are more likely to receive a larger share of the allocation of structural funds (Mattila, 2006). When discussing the size of the budget to be allocated for redistributive policies involved in the MFF, countries can become politically interdependent because of economic reasons or because they cannot reach particular objectives on their own (Cooper, 1985). When one country decides what actions it should take to reach an objective during the negotiations of cohesion policy, it considers the preferences of other structurally more influential states. As Wagner (1988) points out, for an actor to receive certain political influence when bargaining with other actors, it needs to provide economic resources that will make both actors better off. In this sense, when the member states negotiate the MFF and, in particular, allocation of ESIFs in the Council, they should be aware that compliance with the rules of cohesion spending (the Commission's conditionalities) would provide them with more cohesion funding. However, these countries need to calculate the utility they assign to the agreement they reach and the utility that prevails the agreement (Wagner, 1998) so that they know what the effect of the outcome is – in this sense, the amount of funding they receive could have a significant impact. If member states expect to receive a larger amount of funds, then they should be more prepared to follow the control mechanisms provided by the Commission. Due to the provision of a significant share of funds that requires more considerable responsibility for countries to follow EU rules, the Commission is more likely to influence the governments' absorption capacity.

However, in this case, due to the larger share of funds and the state feeling more obliged to follow the rules, additional challenges might hamper the successful implementation of funds. Bigger budgets for national OPs are more complex to manage by the countries and require greater administrative capacity (Terracciano and Graziano, 2016). In this case, the countries' MAs need to be able to handle the considerable pressure of allocating the funds towards projects that contribute to the overall EU goals with cohesion policy. Arguably, the more funds a country receives, the more difficult it would be for it to fully comply with the rules of the Commission as more funding requires better administrative capacity. Moreover, because of the significant amount of financial resources going into the OPs, the Commission will be more likely to monitor the spending priorities of the countries more carefully.

Therefore, from the information provided above, it could be inferred that:

**Hypothesis 2: The larger size of funding a Member State receives, the more likely it is for its absorption capacity to be influenced by the Commission**

#### 4. Methodology

This thesis will focus on an in-depth comparative analysis of two cases to answer the research question posed in the literature review. The cases that will be explored in the thesis are Bulgaria and Romania. These two countries present many similarities when it comes to researching them – both states joined the EU in 2007 and have maintained close political structures before and after their accession. The governments suffered from internal political problems and were dealing with high levels of corruption, especially during the first few years of their membership in the Union (Transparency International, 2009). In addition to that, when it comes to implementing the EU funds, the countries lacked the necessary absorption capacity in the beginning (Lacatus and Sedelmeier, 2020). Both states joined the Union under similar conditions. As part of its enlargement policy, the EU provided pre-accession funds to both countries that were meant to help them achieve sustainable economic development and have the opportunity to implement EU funds successfully. Although the states' absorption of funds has been steadily increasing throughout the years due to the countries' efforts to improve their institutional quality, these member states are still listed as the worst performers in terms of cohesion policy implementation. Nevertheless, they still present differing results with the absorption of funds during previous years because of their different political stability and administrative abilities (Surubar, 2016). Therefore, the chosen cases present ideal examples for the research to explore under what conditions the Commission can influence its ability to implement cohesion policy funds in the programming period of 2014-2020.

A comparative analysis will provide more reliable results about the overall ability of the Commission as a principal to monitor fairly newer members located in the periphery properly. Being away from the centre, such countries might have interests that do not align with those of the other countries and the Commission. Thus, this research will utilize a cross-case analysis that could best find unique and puzzling findings that might persist beyond a single case (Khan and Vanwynsberghe, 2008). Such an approach appears to be more useful when assessing causal conditions than a quantitative analysis (Ragin, 1999). The reason for this observation is the fact that using small sample of cases can help the researcher find the underlying

causality between different variables. In addition, comparative analysis can mobilize knowledge and find new avenues for answering the research question. On the one hand, there is a notion that this kind of analysis may not provide researchers with the outcomes that could be generalizable. Since qualitative studies involve fewer cases that might be somewhat isolated from others, it would seem that the reliability of the findings might suffer, and the theory that is being tested might not be valid at all. On the other hand, case comparison represents a model that would provide scholars with the most reliable tool to investigate a particular issue in detail to reach important inferences. Such inferences might be easily missed or misunderstood if the research is using other kinds of research designs. Therefore, although case study analyses might suffer from selection bias (Collier and Mahoney, 1996), some political phenomena are best understood if they are studied in a small number of cases (Collier, 1991).

To test the first hypothesis, this research will investigate some of the control mechanisms imposed by the Commission to supervise the member states in their absorption of cohesion policy funds. The causal mechanism this research is interested in will be as follows: first, the independent variable that will be investigated is the ExACs required by the European Commission for cohesion policy implementation in the 2014-2020 programming period of the MFF. These conditionalities involve thematic and general conditions that the member states should follow to be eligible for intermediate funding for their OPs. These conditionalities need to be fulfilled by the end of 2016. Second, the dependent variable will be the absorption capacity of the member states. Regarding the administration of funds, the capacity will be measured by the amount of funding effectively and efficiently spent on programmes (Cace et al., 2009) compared to the received funds for the allocation period. In this case, the capacity will be influenced by the number of conditionalities fulfilled by the country and the amount of funds spent on programmes. It is important to know that it is not expected that the countries would know whether the new conditionalities might create difficulties with their absorption capacity or not; thus, they decide to comply with them. In this case, countries' (agents') compliance with the conditionalities presents more loyalty to the Commission as a principal, and less compliance would mean more agency drift. The funds that will be considered, in particular, will be the ERDF, European Social Fund (ESF), and Cohesion Fund (CF), as both countries receive a proportional amount of financial help through them.

For the second part of the analysis, another independent variable will be investigated: the size of the funding that member states receive from the EU. In terms of the cases selected, Bulgaria and Romania are both net recipients, thus, they receive more funding compared to the net contributor states that usually pay in the EU budget more than they receive from it. Due to the chosen cases receiving similar benefits from cohesion spending, it will be difficult to compare how they would engage in agency drift as they both need to comply with the conditions posed by the Commission. This is why in order to study the second hypothesis, the research will focus on the amount of the funds in relation to GDP being allocated to the largest OPs of the countries, in which case Romania benefits more from the policy than Bulgaria. Such a difference would illustrate to what extent the size of funding matters for the absorption of ESIFs. In order to investigate this relationship, the country's compliance with the priority axes (PAx) of the OPs and the MAs efforts in completing them will be explored. The PAx of the programmes indicate what the states' authorities and the Commission have agreed to achieve to reach national and the Europe 2020 objectives established by the EU. These objectives should help the countries reach smart, inclusive and sustainable growth by addressing various issues of digitalization and improving the business environment, environment protection, or energy efficiency (European Commission, 2014a). The PAx are another kind of condition that was introduced as part of the performance framework meant to monitor the efficient spending of the funds for the programmes (Regulation (EU) No 215/2014, 2014). Since these PAx are included in the performance framework of the OPs that the Commission requires the Member States to undertake, they present another mechanism that the EU might use to control the implementation of funds in the Member States. In order to provide for the comparativeness of the cases, this study chose those OPs in Bulgaria and Romania that are the most similar in their general objectives and expected results.

In terms of data collection, this research will mainly use primary sources from the ESIF Open Data portal from the European Commission about funds allocated and used during the programming period of 2014-2020 to understand how much funds the countries have absorbed. All the documents for the cohesion policy that will be used in this research are available to the public and can be found on the Commission's online archive. The Partnership Agreement documents, signed between the MSs and the Commission, will also be utilized. They include data on the ExACs that need to be followed and will help the research determine

what obligations each country had to comply with and to what extent the countries were prepared to start the new programming period. The research will use documents by the European Court of Auditors (ECA) and national audits made on the ExACs that will provide information on the particular difficulties countries faced during the fulfillment of the Commission's control mechanisms. As such, the document containing the audits and evaluations of the ExACs will be compared to see whether there are any discrepancies between the different evaluations. Moreover, this research will pay attention to the OPs that have the most funding going into them. Therefore, national evaluations and implementation documents provided by the governments will be best suited to explain to what extent the MAs followed the PAX and controlled the flow of funds into the final OPs' projects. Since some of the documents are not written in English, the author of this thesis will provide translation for these evaluation documents.

## 5. Analysis

This research argues that the Commission is less likely to influence the absorption capacity of the Member States that engaged in an agency drift in the programming period of 2014-2020. The reason for this observation is that the states that are not fully committed or unable to follow the Commission's mechanisms for influencing the implementation of funds, or the ExACs, are more likely to be taking charge of the administration of funds, thus influencing their own absorption capacity. In addition, the issue of receiving large amounts of funds and having the pressure to spend them on EU goals and on time for the programming period has put more strain on the absorption of the states.

### *5.1 Ex-ante Conditionalities*

Before investigating the cases in detail, it is important to understand what the conditionalities are and how the Commission plays the principal role in the Principal-Agent relationship. Having finished negotiations on the budget and the new MFF being in place in 2014, all the countries contributed and received funding on several headings. The heading of the MFF that corresponded to the spending of ESIF was the 'Economic, social and territorial cohesion' and received the second-largest sum of money (European Commission, 2013). This heading focused on increasing the competitiveness of the countries through the development of transportation infrastructure, SMEs and the digitalization of the countries, as well as the increase in cohesion between regions. For the new 2014-2020 period, the Commission put

forward a requirement for states to follow cohesion policy's ExACs in order for the EU to achieve the Europe 2020 strategy goals that focus on the results and effectiveness of all EU policies (Regulation (EU) No 1303/2013, 2013). To fulfill these objectives, the Commission undertook a series of thematic methods to boost the investments' effectiveness. In this way, the institution showed its ambition for member states to increase the quality and the quantity of their absorption rate. The ExACs, being the new additions to the cohesion policy rules for the 2014-2020 programming period, were seen as a guarantee for the strategic and administrative preparedness of the countries to implement the ESIFs. The conditionalities were divided into two categories – 7 of them are general conditionalities that need to be fulfilled by all member states since they were related to the provisions of the EU law in terms of anti-discrimination, state aid, or disability (European Commission, 2014c). The other 29 conditionalities were thematic and corresponded to the sectors in which the Commission invested.

The procedure of evaluating the implementation of ExACs usually starts with the countries doing a self-evaluation of their compliance with the objectives. If the ExACs are applicable for the states, the Commission starts the assessment of fulfillment of the conditionalities – these are included in the Partnership Agreements of the countries. If a member state has not managed to comply with some of the objectives, the Commission has the right to investigate whether the actor has a proper justification for doing so (European Commission, 2014c). According to Regulation 1303/2013, if a country does not comply with the rules, the EU can suspend interim (in part or in whole) payments to the country (Regulation (EU) No 1303/2013, 2013). Only if the Commission rejects the reason for the country's nonfulfillment with the ExACs will a suspension of payments be possible under the Regulation.

Such a provision allowed the Commission (principal) to obtain an effective control mechanism for implementing the policy as it possessed the ability to ensure compliance with the rules. However, it should be noted that the Commission was not obliged to suspend the funding but only had the option to do so if it saw that certain conditionalities were not followed without explanation. Such an issue could be rather politicized on the EU- and national levels (Drăgan, 2017).

### *5.1.1 Bulgaria's conditionalities*

For the period of 2014-2020, Bulgaria was allocated 7.6 billion euros for the heading that was related to cohesion policy – these funds were meant to increase the country's socio-economic development by helping the government to follow the goals of the Europe 2020's strategy on smart, sustainable and inclusive growth (European Commission, 2014d). The ESIFs were spread across six OPs: OP Science and Education for Smart Growth, OP under the SME Initiative, OP Environment, OP Transport and Transport Infrastructure, OP Regions in growth and OP Innovations and Competitiveness. All of the programmes adopted in Bulgaria were designed to follow the ExACs set up by the Commission in order for them to receive funding. Such conditions were necessary partly due to administrative capacity issues that were quite challenging for the country in the previous programming period of 2007-2013. However, in the new period, the ExACs were quite a novel rule, and Bulgaria needed to prepare its MAs to handle the funds by increasing their administrative resources. As a result, some authorities were focusing on absorbing the funds from the previous programming period (KPMG, 2017), which led to delays in the financing of projects. Therefore, administrative issues from the previous programming period persisted in the new one.

Like any other member state, Bulgaria was responsible for following the conditions imposed by the Commission – ex-ante and macroeconomic. This is due to the fact that the country vouched to finance its programmes by following all the thematic objectives outlined in the Common Provisions Regulation (Regulation (EU) No 1303/2013, 2013). Therefore, the ExACs that had to be fulfilled included all the general and thematic conditions. Bulgaria had to meet more conditionalities than most members of the EU as they were considered necessary for the country's programmes (Chamber of Audit, 2017). Although the thematic ExACs needed to correspond to the strategic objectives of the EU, the main goal of the funds was meant to improve the country's spending priorities. Apart from the general conditions, thematic objectives included strengthening the research and technology sector, use of ICT, protecting SMEs, dealing with environmental issues, increasing social inclusion and employment, and promoting the institutional quality and capacity-building of the administration (European Commission, 2014d). Therefore, these conditionalities, although aimed at achieving the main growth goals of the MFF, still provided the ability of the Bulgarian institutions to efficiently use the funding without delays in their channelling to contracting and spending by increasing the country's administrative quality.

### 5.1.2 Bulgaria's absorption

In order to see how Bulgaria played the role of an agent that engaged in an agency drift, close attention will be paid to whether the country managed to follow the ExACs enacted in the period of 2014-2020 or not. By mid-2014, Bulgaria indicated that it had not managed to follow most of the rules imposed by the Commission for the more effective absorption of the funds. For example, the conditionalities on improving the educational system and the advancement of the country's administrative capacity have not been met (European Commission, 2014d). The country developed an action plan for OP Environment to list several steps that need to be taken for the MA to complete the unfulfilled objectives (Chamber of Audit, 2017). With these conditionalities, the Commission, acting as the principal, provided an authority to the Member State (the agent) to control the implementation process of EU funds on the condition that it meets specific criteria.

However, there were some irregularities with the implementation of the conditionalities. For example, the OP Regions in Growth in Bulgaria managed to accomplish most of the ExACs by 2016, except for objectives for public procurement, statistical systems, transport 'master' plan, Roma inclusion strategy, and health conditions (Ferrer et al., 2018). Due to the unfulfillment of the ExACs, the MA of this OP was tasked with developing action plans that listed certain objectives that needed to be met by the responsible institutions. However, by 2017 more than half of the action plans by Bulgaria were still not completed (European Court of Auditors (ECA), 2017). One of the reasons these conditionalities were not met was that the MAs responsible for the operation of the programmes did not put effort into fulfilling them at all (Chamber of Audit, 2017). This negligence led to the delay of the deadlines for implementing these criteria. Therefore, it was becoming evident that the authorities lacked the interest in fulfilling the ExACs.

Therefore, the government decided not to comply with specific criteria as they were seen as unnecessary to deliver the expected results for the OPs and the funds financing them. Such was the case with the country reporting that most of the general ExACs relevant to OP Transport and Transport Infrastructure and OP Innovation and Competitiveness do not apply to the programmes (ECA, 2017). Moreover, although stated as fulfilled by the Bulgarian authorities, the conditionalities connected to public procurement were not confirmed by the Commission as completed (Chamber of Audit, 2017). What is interesting to note is that the



Commission did not suspend funds to the OPs that did not meet all the criteria. In this case, it can be seen that the Bulgarian government, the agent, did not stay fully loyal to the Commission (principal) and diverged from its goals quite significantly. Therefore, the absorption of the funds in the 2014-2020 programming period was not led by the objectives set up by the EU, decreasing the Commission's influence over this process.

As for the country's absorption of ESIF, although some ExACs were not fulfilled, the contracting and payment ratios in the state indicate that Bulgaria managed to absorb the funds quicker in 2015 and 2016 than in the previous corresponding programming years (KPMG, 2017). On the one hand, this absorption speed might have been influenced by the need for MAs to finish the earlier programming period's payments to start working on managing the funds for the new programming period. On the other hand, the quick absorption indicates that the government tried to adapt to the implementation of the requirements for implementation posed by the EU. By 2021, Bulgaria managed to spend 70% of the funds even though it did not fulfill the ExACs (European Commission, 2022a). The inability of the country to follow the conditionalities should not be entirely attributed to its disinterest in remaining loyal to the principal, as it still tried to do what the principal wanted. However, since the Bulgarian government (the agent) indicated disinterest in accomplishing some of the objectives, the Commission (principal) did not influence its absorption process as much.

### *5.1.3 Romania's conditionalities*

The total allocation of ESIFs for Romania for 2014-2020 was 23 billion euros for the Economic, Social and Territorial Cohesion subheading of the MFF (European Commission, 2014b). Like Bulgaria, Romania also suffered from various socio-economic issues that prevented them from having stable economic growth and competitiveness in the previous programming period. Moreover, the Romanian government lacked the appropriate administrative capacity to help the MAs spend the funds on time (European Commission, 2014e). Due to this issue, the country had the optimistic goal of implementing cohesion policy in a way to improve its absorption of the funds and decrease the economic disparities between its regions. Romania followed the same ExACs as the other countries, both thematic and general. For the new budget period, the country planned six OPs, some of which are a continuation of prior

programmes: OP Large Infrastructure, Regional OP, Competitiveness, Human Capital, Administrative Capacity and Technical Assistance (European Commission, 2014e).

The country also was assigned more conditionalities, following Bulgaria in the number of criteria that needed to be met for interim payments on their OPs (Chamber of Audit, 2017). In the first year of the budget cycle, the government managed to fulfill either fully or partially several ExACs, excluding the thematic conditions on digital growth, risk prevention, and risk management, transport sector, active labour market participation, the existence of national strategic policy targeting poverty, education system and policy addressing the administrative capacity in the country (European Commission, 2014e). This meant that the country had more objectives that needed to be completed before it received the payments from the EU. Naturally, in terms of administrative capacity for the 2014-2020 period, the Romanian government was prepared to address the ExACs by assessing the needs of the stakeholders, building an action plan for the OPs, and analyzing the specific needs in order to meet them (European Commission, 2014e). Therefore, it would seem that Romania (the agent) was also initially inclined to follow the principal's conditions on the ESIF's absorption.

#### *5.1.4 Romania's absorption*

In its Partnership Agreement, the Romanian government had stated that some of the thematic conditions were not fulfilled on the national level, with few areas of conditionalities like the waste sector lagging behind (European Commission, 2014e). This implied the necessity for the government to complete all the conditionalities by 2016. However, issues that were present in the previous period persisted throughout the 2014-2020 budget cycle and needed to be addressed. Arguably, the requirement for fulfilling the ExACs aggravated the situation in Romania as its MAs were not prepared to meet the administrative burden of trying to absorb funds from two programming periods simultaneously, thus delaying the implementation of the projects. Such a delay in implementing the ExACs prevented the country from adequately absorbing the funds available in the first few years of the new cohesion policy period. This is why, when it came to the contracting and payments ratio, the country was doing worse in the new programming period than the previous one – with only 7% of contracting being done in 2016 (KPMG, 2017). Therefore, on average, the implementation of EU funds in Romania had a slow progress, confirming the idea that the ExACs were not improving the government's administrative capacity.

Competitiveness OP and Large Infrastructure OP did not follow certain general ExACs (anti-discrimination or environmental legislation) as they were not considered relevant (Hamza et al., 2016). This was a situation similar to the one in Bulgaria, and it meant that the European Commission as a principal could not successfully monitor the country's work towards the common EU goal of implementing the cohesion policy objectives. Since the Common Provisions Regulation did not stipulate that the Commission was allowed to monitor the implementation of the ExACs after the deadline of 2016, the EU could not undertake any financial corrections in case the countries did not fulfill their objectives (ECA, 2017). In this case, the enforcement mechanism of the ExACs was undermined by the Commission's inability to assess whether the agents were following its requirements of reporting the completion of conditionalities.

However, 13 conditionalities were not fulfilled until the deadline in 2016 (KPMG, 2017). However, by the year of the deadline for providing an action plan to fulfill certain thematic and general conditionalities, Romania had managed to complete all ExACs except for the waste sector-specific objective (Ferrer et al., 2018). The waste management system that aimed to improve the infrastructure for waste recycling in the country and the disposal of such waste was not as targeted for investment by the government as in other fields. This was problematic considering the fact that the EU paid great attention to the environmental challenges by including them in its development plans and including them as a goal to be reached by the redistributive policies. However, no suspension of payments from the Commission occurred due to this issue. Opposite of this was the country's rather ambitious approach toward fulfilling the conditionalities - the action plans established for most the objectives were thoroughly invested in (Hamza et al., 2016). Unlike what the Principal-Agent theoretical framework would suggest, Romania did not engage in much agency drift and was quite optimistic about following the rules formed by the principal as it showed great interest in providing action plans for the unfulfilled ExACs.

How did this effort in fulfilling ExACs translate into absorption capacity? From having merely 3% of funds' implementation in 2016, Romania managed to spend around 55% of the ESIFs allocated for the period of 2014-2020 in 2021 (European Commission, 2022b). Since Romania followed the ExACs, thus not engaging in much agency drift as Bulgaria, the Commission had more influence on its absorption. However, comparing the results of both countries'

absorption of funds, it would seem that the influence of the Commission's conditionalities has a negative effect on the absorption capacity of Romania.

However, these slow absorption results contradict the ones the Commission expects that the ExACs will provide. According to the Commission, delayed spending of cohesion policy funds is not the goal of the ExACs (European Commission, 2014c). These conditionalities should have improved the better contracting and spending of the funds and implementation of projects. Nevertheless, Romanian MAs did not manage to reach such results. This effect may be partly due to the significant amount of indicators set up by the ExACs, that countries (agents) have to follow, which complicated the progress agents had with the performance of the task of implementing funds. Due to this issue, the evaluation of the programmes became more complex, resulting in the Commission's difficulty in developing good results indicators (ECA, 2017). The lack of focus on results led the agents (like Romania) to spend more time fulfilling the conditionalities imposed by the principal (Commission) and not spending the funds on the projects.

## *5.2 Funding Size*

As both countries studied are net beneficiaries, and the operationalization of the states' amount of funding will be challenging to make, this research decided to study the size of the financial resources received by the member states from the Commission on one of the more extensive OPs they followed in 2014-2020. With such a method, the research will explore how the budget size can influence the absorption capacity. For simplification purposes, the largest funded OPs that are close in objectives and expected results have been chosen –the Operational Programme Transport and Transport Infrastructure (OPTTI) in Bulgaria and the Operational Programme Large Infrastructure (LIOP) in Romania. In order to see how the Commission tried to influence each country's absorption capacity through their OPs, an analysis of the completion of the programmes' PAX will be investigated.

### *5.2.1 Bulgaria's Priority Axes*

As a net recipient from the MFF, Bulgaria received a larger share of the funds than the other Member States that contribute more to the budget. However, in terms of cohesion policy fund allocation, the country was not allocated as large of a sum of funds for its structural projects planned for the 2014-2020 programming period compared to other countries' programmes of similar nature. In Bulgaria, the OPTTI is funded by both the ERFD and CF, with

the total allocation of funds reaching almost 1.8 billion euros (Ministry of Transport, Information Technology and Communications of Bulgaria (MTITC), 2020). The programme involved the provision of modern transport systems that increase sustainable development in the country and contribute to building administrative capacity that will deal with related environmental issues. This programme received the most European investment from the MFF 2014-2020 in the country. Nevertheless, the OP was not as expensive as its counterpart OP in Romania for the same period.

The PAX of the OP presented what the investment objectives were and which aspects of the programme needed to be funded in order for the programme to contribute to reaching the EU-wide goals for the particular programming period. The priorities were: the building of TEN-T (Trans-European Transport Network) Railway (PAX 1), TEN-T ROADS (PAX 2), intermodal transport and urban transport services (PAX 3), a system for traffic management and services (PAX 4) and technical assistance (PAX 5) (MTITC, 2020). As seen from these objectives, the MA responsible for implementing the programme had to deal with the performance of indicators mainly related to transportation. In terms of its ability to solve some of the challenges the Commission had (from Europe 2020 objectives), some of the OPTTI's PAX were also concerned with Bulgaria's sustainable development strategic objective (European Commission, 2014d). Despite its significant funding this OP did not have much responsibility for targeting multiple thematic areas promoted by the Commission.

### *5.2.2 Bulgaria's absorption capacity*

The OPTTI in 2014-2020 continued the operation of projects from its predecessor OP Transport which was implemented in the previous programming period. By the end of 2019, there was good progress with the decided projects on which the funds will be spent; however, the verified funds on projects presented only around 39% of the available budget for the OP, which was less than expected (MTITC, 2020). One reason for this slow absorption of funds was that most of the funds for the PAX that the country has set on the national level were spent on larger projects that needed more time to be finished.

Most of the funding was allocated to the first two PAX, which involved building roads and railways on the EU-level TEN-T programme (PAX 1 and 2). What is interesting to note is that the decided funds on the first priority went over 100% (significantly more than the second priority); however, fewer funds were spent on actual projects (verified and certified

expenditures), which makes the overall absorption lower (MTITC, 2020). However, the most significant implementation of funds was seen in the third PAX which involved intermodal transport services and sustainable urban transport. The other two priorities either have slower absorption due to projects that needed more time to be finalized (PAX 4), or they were performing better due to the excellent organization of resources (PAX5) (MTITC, 2020). Projects on the train operation management system and the modernization of maintenance activities on the Danube river part of PAX 4 had a slow implementation of funds, whereas some projects on PAX 5, like the increase of administrative capacity and material resources of some of the beneficiaries, were fully completed by that time. Therefore, some of the PAX could not reach their milestones, and this issue required the member states to reallocate some of the funding to other PAX as part of the ERDF and CF intervention logic. Eventually, 80 million euros from PAX 2 (building of roads) were transferred to PAX 1, related to building railways (MTITC, 2021). The primary reason for that was that the Struma motorway, one of the large projects developed under PAX 2, required substantial ecological considerations that led to the reduction of the project's scope. An additional project involving the motorway 'Europe' was included in the PAX (MTITC, 2021). The financial compensation for these changes in the programme was the transfer of funds between the PAX. The overall results of absorption of funds can be seen in Table 1:

Priority Axes	Results Achieved by 2020
1. TEN-T Railway	18.64% verified spending
2. TEN-T Roads	35.48% verified spending
3. Intermodal transport services and sustainable urban transport (e.g. Sofia metro)	84.62% verified spending <i>Most progress achieved because of the quick implementation of projects</i>
4. Traffic Management systems and services	7.51% verified spending <i>Low progress achieved due to delay in project implementation</i>
5. Technical Assistance	40.55% verified spending <i>Progress due to some projects being finished at an early stage</i>

**Table 1: From the author's own composition based on (MTITC, 2020)**

Therefore, it can be seen that funds' absorption on the priorities varied significantly, but it is yet unclear whether the financial implementation of projects will be improved significantly until the deadline of absorption in 2023 (MTITC, 2020). Nevertheless, the idea that the Bulgarian authorities managed to follow the Commission's performance framework

objectives by fulfilling the PAx could lead us to believe that the EU was able to influence the absorption of these funds. However, this effect becomes minimal when one takes into account the government's efforts to prescribe a minor role of the OPTTI in the contribution to the strategic objectives of the EU. In this sense, because the number of funds allocated to this OP was not as significant as other large programmes in different countries, the Bulgarian government decided on a fewer number of PAx. These priorities were directly connected to the programme's achievability rather than its support for the Europe 2020 agenda (or the Commission's) priorities. Therefore, although Bulgaria had relative success in implementing its PAx, it did not entirely follow the EU's objectives, which meant that the Commission did not influence the absorption capacity of the OPTTI.

### *5.2.3 Romania's Priority Axes*

LIOP received around 9 billion euros from the EU to support the building of transport infrastructure, protect natural resources and energy, and ensure risk prevention (Lucian, 2021). Having received validation for the LIOP in 2015, one year later than the Bulgarian equivalent, the Romanian monitoring authority had less time to adapt to the implementation requirements for the programme itself. There were eight priority areas on which the government needed to focus on when implementing projects from this OP, and, similar to the Bulgarian OPTTI, both the ERDF and CF financed these priorities. The largest funding went to the PAx for improving mobility through TEN-T, including the building of roads and railways, and metro network development (focusing on the Bucharest-Ilfov subway). The other PAx included the creation of a sustainable and efficient transport system, the building of environmental infrastructure, environmental protection of historically contaminated areas, work on climate change, clean and efficient use of energy, increased energy efficiency in cities, and intelligent and sustainable systems of transport (Ministry of Investments and European Projects (MFE), 2021). As can be seen from these priorities, the Romanian government has decided to allocate funding through this OP to more strategic objectives outlined by the EU (European Commission, 2014b). The country focused on diversified priorities, rather than specific objectives related only to transport, like the OPTTI in Bulgaria. In order to achieve these goals, Romania also placed target objectives that the OP needs to reach by the end of the cohesion policy budget spending allowed until 2023.

Since the OP was allocated more funding than the Bulgarian equivalent, one could conclude that the Romanian government can be considered the larger net recipient of the cohesion policy's investments. The considerable share of funds going into LIOP might be the reason why the government felt the need to follow more PAX promoted by the Commission to reach the overall EU goals with cohesion policy. Therefore, the amount of funding is expected to significantly increase the Commission's influence on the country's absorption capacity.

#### *5.2.4 Romania's absorption capacity*

By 2019, much work was needed in order to accomplish the priorities the OP had set for the MFF period of 2014-2020 – the absorption rate for the transport sector of LIOP then accounted for around 21%, which was considered an improvement from the previous year (MFE, 2019). However, this rate did not seem to be reaching the outcomes required for the OP, considering that the programme received a large amount of financial assistance from the EU. Contracting rates were high, which assured the MA of greater funds absorption.

As for the spending on the PAX that the LIOP needed to follow, there were issues concerning funding allocation. The eight PAX that the country was focusing on for this programme required significant administrative work due to the large sum of funds. In this case, the government has decided to pay more attention to certain PAX than others. For example, the PAX related to transport and building of roads and railways were the ones to have more spending. As for PAX 3, although some progress with funds' absorption was made with previous projects that were accepted in 2019 (Cluj-Sălaj, Turda Câmpia Turzii, Timiș) (MFE, 2019), this was not the case for later years. Spending on the priority related to building environmental infrastructure was low compared to the arranged contracted payments even though multiple projects were rejected for implementation (MFE, 2021). Since this priority was allocated larger investments for the programming period, it could be inferred that the size of the allocated funds might have constrained the responsible MA's ability to absorb the funds. With the evaluation of the MA's annual report on LIOP containing further concerns regarding the low allocation of funding for the third and the rest of the PAX, it was becoming evident that spending was lagging behind for all priority areas except for the Transport sector included in the first two PAX which was directly connected to the national spending needs. This meant that six out of the eight objectives that the OP had to follow were not reaching



their allocation targets (MFE, 2021), threatening the Member State's ability to implement the necessary projects. The summary of the overall absorption capacity can be found in Table 2:

Priority Axes	Results Achieved by 2020
1. Improving mobility through the development of the TEN-T and the metro network	46% absorption rate
2. The development of a multimodal, high-quality, sustainable and efficient transport system	52.30% absorption rate
3. The development of environmental infrastructure based on an efficient management of resources	22.84% absorption rate <i>There are numerous projects on hold because of a lack of investment</i>
4. Environmental protection by taking measures to preserve biodiversity, air quality monitoring and de-contamination of historically contaminated sites	18.55% absorption rate <i>Problems occur with the fact that there were numerous rejected projects</i>
5. Promoting adaptation to climate change, risk prevention and management	35.39% absorption rate
6. Clean energy and energy efficiency in order to support a low carbon economy	8.11% absorption rate
7. Increased energy efficiency in centralised heating systems in selected cities	27.36% absorption rate
8. Intelligent and sustainable transport systems for electricity and natural gas	8.58% absorption rate

**Table 2: From the author's own composition on (MFE, 2021)**

The PAX' low absorption was related to the environmental issues, which, in turn, were promoted by the Commission as one of the most important issues to be addressed for the programming period (European Commission, 2019). The EU, therefore, was closely scrutinizing the LIOP's implementation of funds and was eagerly asking for the MAs to pay attention to the PAX that were facing overcontracting of projects as they might cause issues with lack of labour force (European Commission, 2019). The large contracting rate, seen initially as a positive sign by the EU, may be one of the reasons why the overall absorption of the funds from OPLI was lagging behind the OPTTI in Bulgaria.

The issues concerning technical assistance, lack of time provided for developing new projects, and the inability to prepare for new projects due to the weak quality of beneficiaries were some of the issues faced by the MA responsible for the OP. These difficulties became even more visible later when the Commission noted the Romanian authorities' inability to accomplish half of the PAX that the member state had outlined beforehand (European

Commission, 2019). Therefore, the Commission was becoming dissatisfied with the progress done by the Romanian authorities and tried to put pressure on the responsible institutions to increase the spending on projects. By 2020, problems concerning the lack of project formation and interest coming from project tenders were addressed in the assessment report of the LIOP implementation (MFE, 2021). In the early years of implementation, it would seem that greater attention was paid to LIOP and more projects were contracted, but that changed in later years. All the issues mentioned illustrated a concerning trend of Romania facing the challenge of complete absorption of funds in the final year of the programming period because the amount of funding for LIOP was causing more technical difficulties that delayed project implementation. Therefore, although the Commission still managed to influence Romania's absorption capacity with LIOP, the effect was still negative.

## Discussion

This research has argued that the European Commission tried to influence the absorption capacity of Bulgaria and Romania during the implementation stage of cohesion policy in 2014-2020 by utilizing tools such as ExACs and PAX. Using the Principal-Agent framework, the thesis suggested that Bulgaria, engaging in more agency drift than Romania by not following the Commission's conditionalities, had better results with absorption. However, Romania fulfilled most of the ExACs, but such efforts cost its ability to spend more resources on its programmes, resulting in a lower absorption rate. These findings supported the hypothesis made in this research but partially disagreed with the statement made by Blom-Hansen (2005) on the idea that the member states were entirely in control of the implementation of cohesion policy. As seen from the analysis, only one of the two agents decided to implement funds without following the principal's conditionalities. However, since the other agent invested more time into following the rules of cohesion policy meant that the Commission had some control over its absorption capacity, albeit having a negative effect on it.

As the conditionalities' original purpose was to improve the ESIF's spending, the results imply the idea that the Commission's ExACs did not correspond to the different countries' issues with absorption. As Avdikos and Chardas (2016) would argue, the new thematic priorities, included in the ExACs, targeted certain areas of development, like the knowledge economy, that were not necessarily growth-oriented for most regions in Romania and Bulgaria. In this case, the ExACs in Romania led to opposite results in absorption since they did not target the

regional needs and abilities of the country (Kersan-Škabić and Tijanić, 2017). While both countries understood the specific issues they needed to target with cohesion policy, as seen with their Partnership Agreements, their goals for ExACs differed substantially. Since both countries' ability to efficiently implement funds in the previous programming period varied, a one-size-fits-all approach to ExACs from the Commission might not have been the most appropriate method for improving their absorption capacity. If the conditionalities were aimed at the developmental needs of the countries, the opposite results might have been found.

On the other hand, when looking closely into the cohesion policy's OPs in the member states, the Commission's influence on absorption capacity has been found to be larger when a significant sum of money goes into a specific programme. Due to being allocated a significant amount of financial resources, the Romanian LIOP had to follow more PAX as part of the EU performance framework than its Bulgarian counterpart, the OPTTI. The findings indicate that the LIOP's MA had administrative issues spending funds on the diverse priorities, with more financial allocation going into the few priorities connected to the transport sector. Meanwhile, the responsible authority had low commitments to the other PAX that targeted the Europe 2020 objectives. In this case, the more expensive programme required better administrative capacity from the MAs to be carefully managed (Terracciano and Graziano, 2016).

In line with the second hypothesis, the Commission, by trying to increase its influence over the absorption capacity of the Romanian LIOP was strengthening the administrative issues that Romania faced, which led to a weaker absorption capacity. The results differed for the Bulgarian OPTTI, which had fewer and narrower priorities to follow and experienced better funds absorption. This observation supports the findings of Darvas, Mazza and Midões (2019) that cohesion policy should not be connected to more EU-wide goals but target the specific goals of the regions. An interesting finding was that while Bulgaria managed to complete projects quickly, adding to its implementation of certain PAX, Romania had difficulty choosing the appropriate projects for some of its priority objectives. This difficulty might be caused by the Commission's constant pressure put on the MA to effectively spend the funds on the projects that have been already started. Nevertheless, results show that both countries spent more on the priorities that were targeting their national strategic needs, the transport sector

which further proves that newer member states tend to focus their ESIF's investments in physical infrastructure (Medve-Bálint, 2018). In this regard, it seems that for the Commission to improve its effect on the absorption capacity of countries, it needs to implement more specific conditionalities and priority axes that need to be fulfilled. In this scenario, the EU would substantially reduce the administrative burden that the Member States might experience when trying to comply with all the funds' provision and implementation requirements.

Nevertheless, the reliability of this data is impacted by the small size of cases chosen for the analysis. Bulgaria and Romania do have similarities in their approach of using ESIFs, however, comparing them with other member states will provide more validity to the results. While quantitative research might not provide the detailed causality between the Commission's conditionalities and states' absorption capacity, it may provide more evidence about the findings. Due to its limited scope, this thesis only explored only one part of the new changes added to the reformed cohesion policy in 2014-2020 – the ExACs and PAx, however, there are other kinds of conditionalities and requirements for ESIF's implementations that could be investigated. In addition to the evaluation of official documents provided by the countries and the EU, interviews with officials and staff responsible for managing funds might provide more insights into the real absorption capacity issues faced by the countries.

## Conclusion

This research investigated to what extent the European Commission was able to influence newer member states' absorption of cohesion policy funds during the MFF period of 2014-2020. In order to answer this question, the thesis used the Principal-Agent framework first to study the role of the Commission as a principal imposing rules on the implementation of EU funds, and the roles of member states as agents that can decide to either be loyal to the principal by following these rules. Thus, this research has argued that the more member states, acting as agents, engage in agency drift, the less likely it is for the Commission, the principal, to have an effect on their absorption capacity. Findings from a comparative analysis of Bulgaria and Romania, support this statement by showing that Bulgaria's responsible authorities did not comply with the Commission's control mechanism, the ExACs, and did not provide any action plans for the conditionalities' fulfillment by the deadline. In this case, it has been found that Bulgaria's absorption of funds was faster as lack of fulfillment of

conditionalities left space for the timely absorption of a larger source of investment for the programmes. Being involved in less agency drift, Romania fulfilled all of its conditionalities except one but, in turn, experienced slow absorption, which was directly an effect of the Commission.

The second observation that this research made was that the Commission's effect on the countries' absorption depended on the size of funding they received for their largest programmes operating in the same period. In this case, through the usage of official documents from the programmes and national audits made in the countries, the research found that the more resources an OP was allocated, the less likely it was for its MA to implement the funds due to its large administrative burden. One of the reasons for this administrative burden that the authorities of the well-funded OP experienced was that they were more scrutinized for their implementation by the Commission. The more funded programme (LIOP in Romania) had to fulfill more priority objectives set up at the EU-level as a way to justify its large resource allocation. However, spending on projects lacked significantly. From all the priorities it had to fulfill, the LIOP's MA only paid attention to the ones targeting the national spending priorities and ignored the ones pursuing the EU's overall goals with cohesion policy. This was not the case with the Bulgarian OPTTI, which also had large funding but was following more concrete priorities that corresponded to the country's needs with the programme. Therefore, by imposing the requirement for the fulfillment of PAX, the Commission had a negative impact on the absorption of funds.

One of the main insights this research provided was that the Commission's efforts to influence the absorption capacity of countries do not lead to positive results. Despite having good intentions with the newly added control mechanisms, the Commission should pay more attention to the specific needs of the countries in order to contribute to the effectiveness of cohesion policy. Although this research contributes to the study of the implementation of EU funds in newer member states, there exist several ways in which the research in this area could be improved. Since the spending of funds from the 2014-2020 period has not ended yet, it will be interesting to see whether the results will hold after 2023, the deadline for the implementation of ESIF. Moreover, further studies could investigate these issues of absorption with more countries in order to increase comparability between cases. There might be some variance between older and newer member states and their compliance with

the ExACs and PAx set up by the European Union. The newer programming period of 2021-2027 could be explored in a similar manner, using the rule of law conditionality from the European Union as a control mechanism in order to see how it might influence the absorption of funds by the countries.

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