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On the Tenth Report on economic, social and territorial cohesion

Chapter 2.2 Institutions and competitiveness

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Chapter 2.2
Institutions and competitiveness

2.2.1. Introduction

Regional competitiveness depends on public institutions and their ability to help people, businesses and organisations turn economic potential into results. Firms invest, innovate and trade within administrative and legal systems that determine how predictable rules are, how quickly permits and payments are processed, how transparently contracts are awarded and how easily public services can be accessed. The same factors shape families' choices about education and training and where to live. Because these capabilities vary substantially across and within Member States, governance is both a national and a regional factor shaping productivity, cohesion and regions' ability to contribute to and benefit from the single market.

This chapter examines institutions and public capabilities as a regional-development factor in four steps. It first maps existing capabilities using the European Quality of Government Index. Second, it links institutional quality to the composition of productivity growth. Third, it discusses how governance affects Cohesion Policy and strategic public investment. Finally, it considers public procurement, the business environment, corporate governance and digital government as a practical bridge between policy ambition, effective public and private investment and territorial delivery.

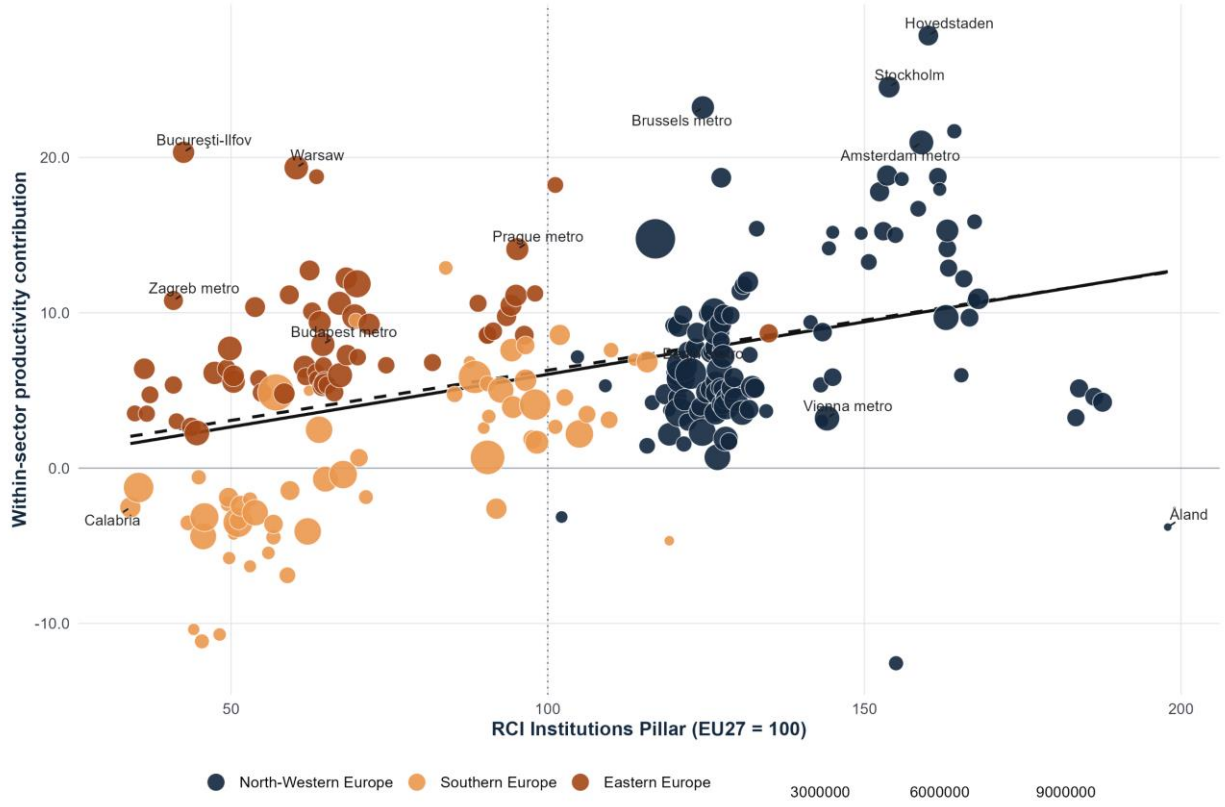
2.2.2. Public institutions as productive infrastructure and drivers of collaborative governance

Public institutions are often described as setting framework conditions, but for regional competitiveness they are better understood as productive infrastructure. They create and enforce rules, organise the relationship between firms, citizens and the state, and their actions influence the cost and risk of carrying on economic activity. The relevant capabilities range from legal certainty and impartial administration to procurement, public investment management and service delivery. For regional policy, their practical value lies in converting local assets - skills, infrastructure, finance and knowledge - into investment and productivity. Governance does not determine outcomes on its own, but it shapes how effectively regional endowments can be mobilised, how opportunities can be shaped and rolled-out and how much value public and private investment can create.

This matters especially for a policy agenda that must combine EU-wide strategy with place-based implementation. Many strategic objectives – digitalisation, the green transition, industrial renewal, skills, innovation diffusion, energy resilience and climate adaptation – are set at EU or national level, but their delivery depends on regional and local systems. Local and regional authorities, managing authorities, development agencies, universities, firms, social partners and civil society organisations must identify opportunities, prepare projects, solve bottlenecks and adapt policies and their implementation to conditions on the ground. Throughout this process, many decisive interfaces are local: land-use planning, permitting, connections to infrastructure, SME support and the organisation of local services.

Collaborative governance helps reconcile direction with delivery. The structures, processes and capabilities through which public organisations interact with firms, knowledge institutions and civil society affect whether strategies are realistic, whether priorities reflect territorial capabilities, whether beneficiaries can participate, and whether implementation can draw on experience (Wolfe, 2026). The implication is that a good governance framework must combine democratic direction with disciplined execution. Political authorities should define priorities, direction and trade-offs in a transparent and accountable way. Once those priorities are set, implementation should rely on professional administration, competitive and transparent allocation mechanisms, monitoring, evaluation, audit and credible feedback loops. The 2026 European Semester Spring Package Communication (European Commission, 2026a) reflects this when it highlights weak administrative capacity, limited coordination

Figure 2.2.1: Regional quality of government and the within component of productivity growth



(1) DG REGIO calculations based on the Regional Competitiveness Index (RCI) and the regional shift-share coefficients as presented in chapter 2.1 and Box 2.1.1. Solid line = unweighted OLS; dashed line = population-weighted OLS.

Source: DG REGIO calculations based on ARDECO and RCI

across levels of government and slow digital uptake as barriers to effective local services and territorial cohesion.

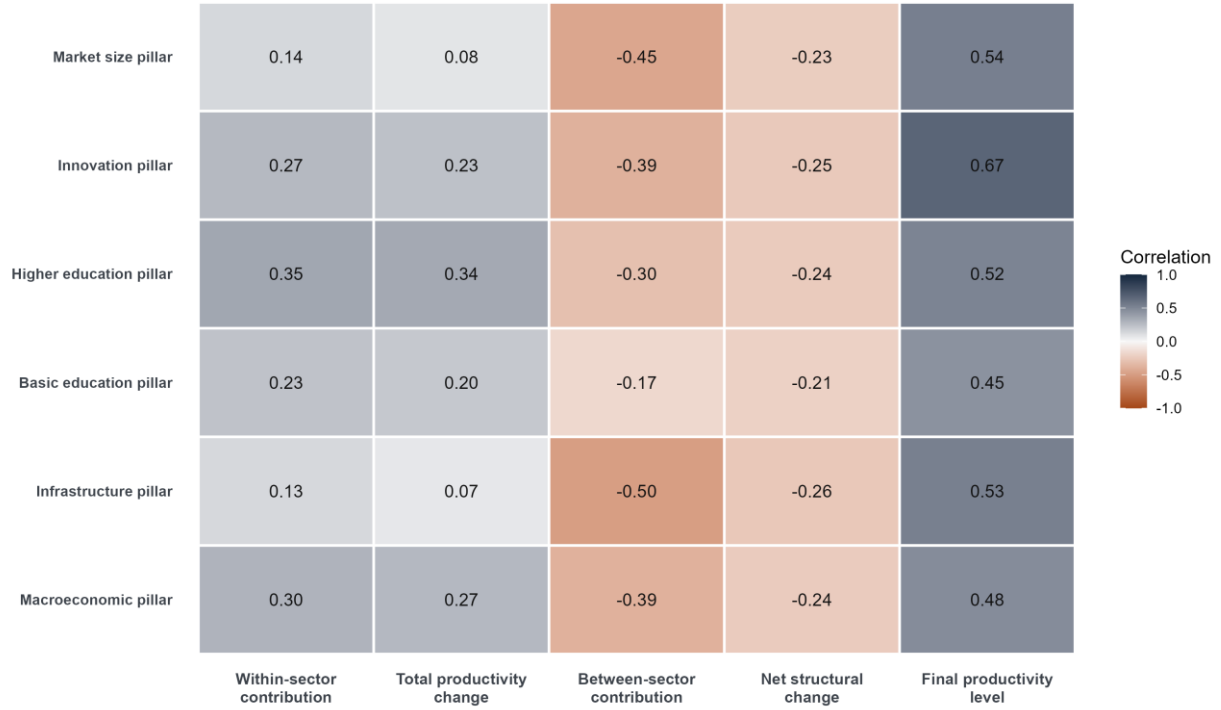
2.2.3. Governance and the composition of productivity growth

Regions with better governance have registered higher within-sector productivity growth. The shift-share decomposition of labour productivity growth presented in the previous chapter showed that, across EU regions, productivity growth has been driven mainly by within-sector upgrading rather than by large-scale labour reallocation across sectors. Figure 2.2.1 suggests that stronger institutions are positively associated with this process. Stockholm, in Sweden, and Hovedstaden, in Denmark, for example, combine institutional scores above 150 with within-sector productivity gains of around 25 and 28 points, respectively, while Noord-Holland, in the Netherlands, records a gain of about 21 points. At the same time, Prague, Warsaw and Bucureşti-Ilfov achieved strong within-sector upgrading despite lower institutional scores, consistent with broader catching-up dynamics. Conversely, Vienna, in Austria, Luxembourg, and Åland, in Finland, perform well below what their institutional scores alone might suggest. Taken together, these cases illustrate that good institutions can provide an enabling environment for productivity upgrading, while starting productivity levels, sector-specific shocks and local economic structures also shape regional outcomes.

The correlation pattern across RCI pillars reinforces this interpretation. The institutional pillar is positively associated with the within-component of productivity growth and with productivity levels, while the between- and cross-components show more complex patterns([64]). The negative reallocation correlations are compatible

([64]) Productivity upgrade within sectors refers to the within component coefficient of the productivity decomposition presented in Chapter 2.1 (see Box 2.1.1 for methodological details).

Figure 2.2.2: Selected RCI pillars and regional productivity outcomes



(1) Each cell reports the Pearson correlation between the 2022 RCI pillar shown in the row and the regional productivity measure shown in the column calculated in the previous chapter for the period 2000-2024. Within-sector contribution measures productivity growth generated within individual sectors. Total productivity change is the overall change in regional labour productivity. Between-sector contribution captures the effect of employment moving towards sectors with different initial productivity levels. Net structural change combines the Between and Cross components and therefore measures the overall contribution of employment reallocation, including whether employment shifts and sectoral productivity changes reinforce or offset one another. Final productivity level is regional labour productivity in 2022–2024. Dark blue indicates a positive correlation, dark orange a negative correlation, and lighter colours values closer to zero; the numbers inside the cells report the correlation coefficients. Correlations are descriptive and do not imply causality.

Source: DG REGIO calculations based on ARDECO and RCI

with convergence: lower-income regions can grow partly by moving labour towards more productive activities, while advanced regions rely more on productivity gains within established sectors. Governance therefore appears less as a mechanism for mechanical reallocation across sectors and more as a condition for deepening productivity within sectors, supporting diffusion, and allowing firms to use the opportunities created by the Single Market. Predictable administration, legal certainty and reliable public interfaces reduce the fixed costs of investing, hiring and adopting technology. Capable institutions can coordinate complementary inputs – for example, linking a transport investment to skills provision and business support – that individual firms cannot organise alone.

Territorial connectivity also shapes returns. Prota and Serlenga (forthcoming) show that the direct effects of investment on productivity are generally positive and often stronger in less-developed regions, while spatial spillovers are more heterogeneous and unevenly distributed across development categories and macro-areas. This suggests that investment contributes to regional productivity growth most effectively when local gains are embedded in broader territorial systems that allow knowledge, technologies, demand and productive opportunities to circulate across regions. Investment in one region can generate demand, knowledge and supply-chain effects elsewhere, while isolated projects may fail to diffuse. Project selection should therefore consider both local needs and links to the region's economy and to neighbouring and functionally connected territories. This is particularly important for innovation, transport, energy and skills investments whose benefits cross administrative boundaries.

Box 2.2.1: Cohesion Policy, investment capacity and the governance premium

Good governance lies at the hearth of Cohesion Policy success. Cohesion Policy finances a broad range of interventions that help to create productive potential (infrastructure, skills, innovation, digitalisation, energy systems, SMEs, urban development and territorial instruments, etc.). The return on these investments depends on how projects are prepared, selected, procured, implemented and monitored. Administrative and institutional capacity has a strong influence on how much of that potential becomes durable regional upgrading.

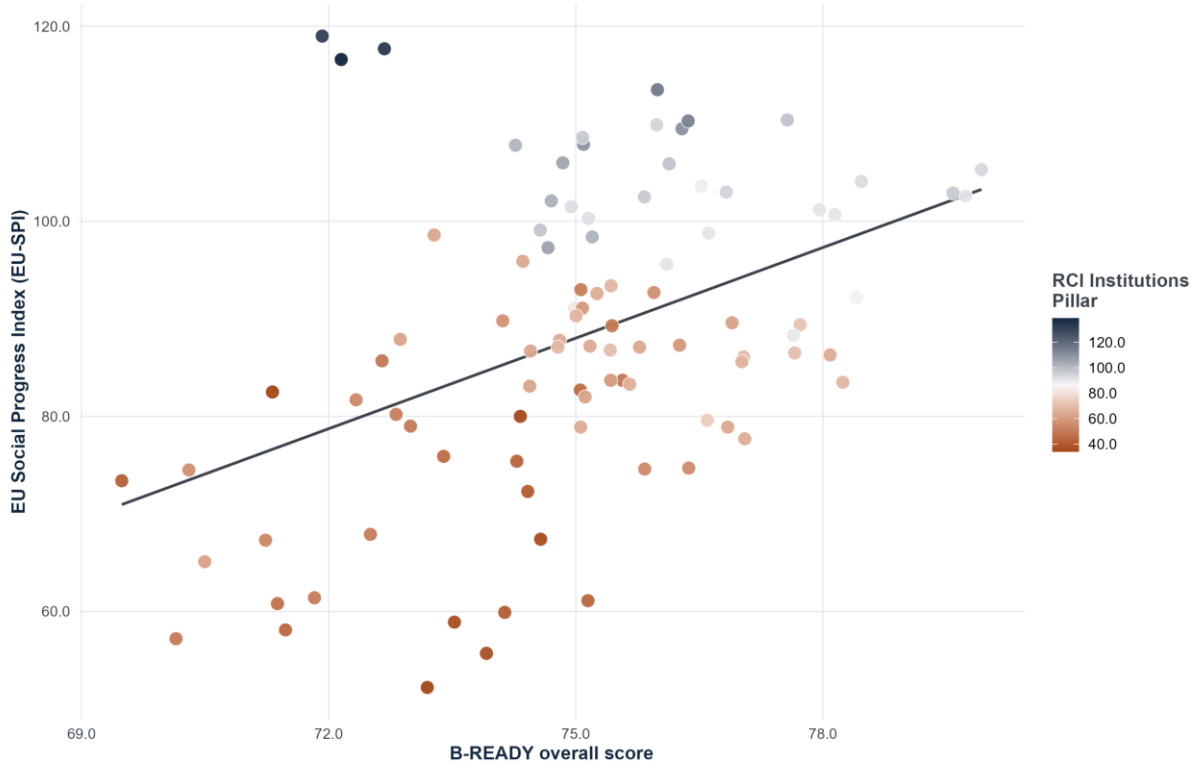
Evidence consistently points to a governance premium. Rodríguez-Pose (2026) finds that Cohesion investment is associated with stronger long-run regional growth where government quality improved, while the relationship is small or negligible where institutions deteriorated. RHOMOLO simulations similarly suggest that a 5% improvement in government quality can raise the GDP effect of Cohesion Policy investment by up to 7% in the short run and 3% in the long run (Barbero et al., 2023). Earlier studies also link policy effectiveness to administrative capacity and the wider regional environment (Rodríguez-Pose and Garcilazo, 2015; Crescenzi and Giua, 2020; Incaltarau et al., 2020).

This also matters for the design of support. Regions with weaker institutions often have the greatest investment needs, so reducing support would risk reinforcing divergence. A better response is to combine investment with front-loaded project preparation, technical assistance, beneficiary support, simpler procedures and stronger monitoring. As institutional capacity improves, regions are able to move towards more complex instruments that require stronger coordination, experimentation and learning. At the same time, investment strategies should be network-sensitive, assessing investment taking into account also their broader contribution to European productivity, convergence and Single Market integration.

2.2.4. Business environment and the intersection between firms and public sector capabilities

A capable public sector and a supportive business environment tend to reinforce one another, although they capture different aspects of institutional performance. Figure 2.2.3 identifies a positive, but not deterministic, relationship between the business environment and broader public-sector performance (social outcomes and capabilities). Across the 94 regions for which the indicators can be matched, the correlation between the composite indicators of the quality of the business environment and of social outcomes is 0.43. The business environment indicator also correlates positively with a composite indicator of the quality of governance, although somewhat less strongly, at 0.34. Regions in which firms encounter more effective regulation and public services therefore tend to perform better on wider institutional and social outcome measures, but the moderate size of the correlations shows that the three indices are related rather than interchangeable.

Figure 2.2.3: Business environment, institutional quality and social outcomes in covered EU regions



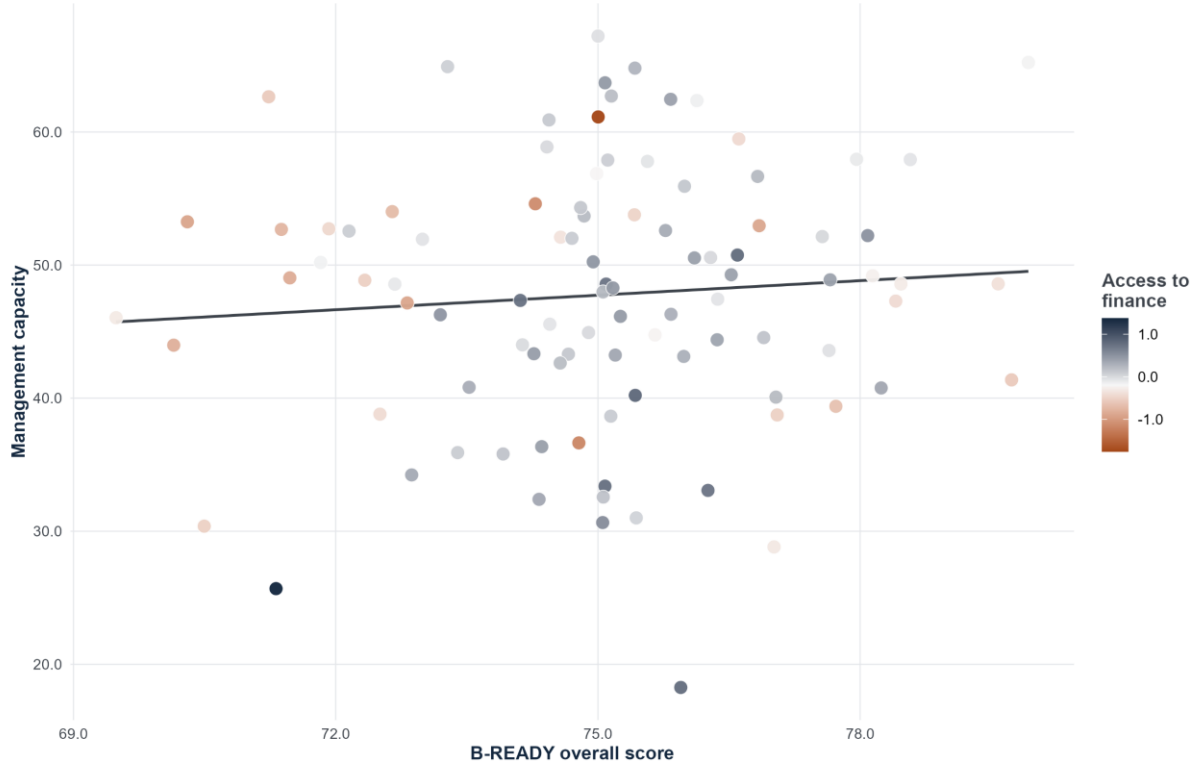
(1) The horizontal axis shows the overall B-READY score as a proxy for the quality of the business environment. This is calculated as the simple average of the subnational B-Ready scores for the three pillars of the B-ready assessment framework: regulatory-framework, public-services and operational-efficiency pillars. The vertical axis shows the EU Social Progress Index 2.0, a composite indicators of subnational social outcomes, as a proxy for social outcomes. Finally the colour represents the quality of subnational governance as proxied by the institutions pillar of the Regional Competitiveness Index 2.0 presented in the previous section. The line is an unweighted linear fit. The indicators use different scales and reference periods, so their numerical levels should not be compared directly. The correlation between B-READY and social progress is 0.43 (N = 94). The relationships are descriptive and do not establish causality.

Source: DG REGIO calculations based on World Bank Subnational B-READY, RCI and SPI

Managerial capability, the quality of the business environment and access to finance are distinct but potentially complementary drivers of business performance. Figure 2.2.4 shows that better-managed firms are not systematically located in regions with a more supportive business environment: the correlation between B-READY and management capacity is only 0.08. Financial conditions also vary considerably across regions with similar levels of management capacity. These differences suggest that favourable external conditions do not automatically translate into stronger internal business capabilities. This is consistent with (Viganola and Diallo, 2025), who find substantial variation in management practices both across and within EU countries. Larger firms, family-owned firms managed by professionals outside the owning family, and firms whose top managers have higher education tend to adopt more structured monitoring, target-setting and incentive practices. The authors also identify a positive and robust association between corporate management practices and productivity after accounting for regional, sectoral and survey-year differences.

The policy implication is that strengthening public governance, improving the business environment, easing financing constraints and strengthening managerial capabilities need to advance together. A more effective administrative environment can reduce uncertainty and transaction costs and create more predictable conditions for investment, but it does not by itself provide firms with the finance or the organisational capabilities needed to exploit those conditions. Similarly, better access to finance may enable investment without necessarily improving how firms are managed. As discussed in the previous chapter, financing conditions also depend on national banking structures, company balance sheets, collateral, risk perceptions, capital-market depth and

Figure 2.2.4: Business environment, management practices and access to finance in EU regions



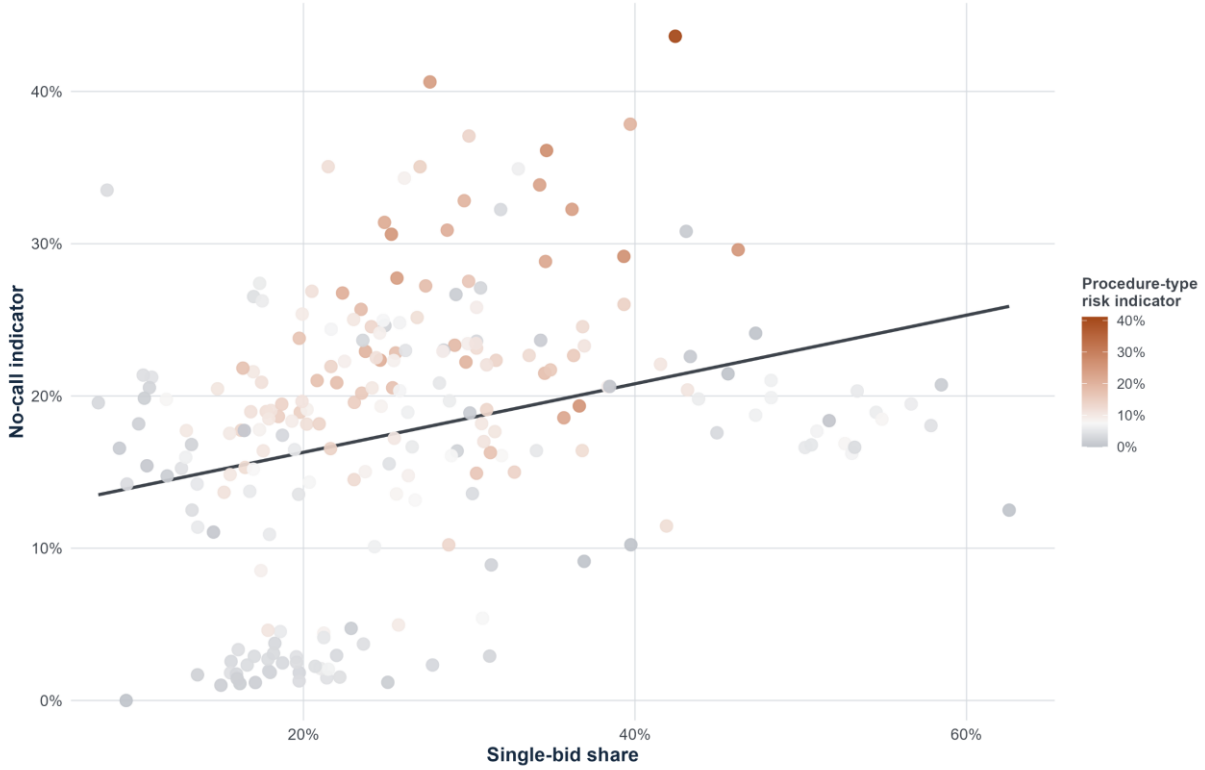
Source: The horizontal axis shows the overall B-READY score. The vertical axis shows the management-practices score for medium and large firms. The colour is a finance-access composite constructed from standardised measures of financial inclusion, bank use, financing constraints, loan rejection and processing times through the World Bank Enterprise Survey; positive values indicate more favourable conditions relative to the covered sample. The line is an unweighted linear fit suggesting that the two are almost unrelated (r = 0.08).

sectoral composition. When such factors impede access to finance, public intervention may be needed to address the corresponding market failures and enable firms to grow and invest, notably through support from financial instruments implemented under cohesion policy. Although the evidence here is descriptive, it therefore points towards a complementary policy approach: capable institutions can improve the conditions in which firms operate, while access to finance and stronger managerial capabilities help firms translate those conditions into investment, innovation, productivity and growth. The 2026 Spring Package Communication emphasises this link by noting the importance of "[a]ddressing overlapping competencies, pursuing regulatory simplification at national, regional and local level and improving coordination across those levels" for reducing the administrative burden on businesses (European Commission, 2026a) .

2.2.5. Public procurement, transparency and digital government

Public procurement is one of the most concrete channels through which governance affects competitiveness and the effectiveness of public investment. It is economically significant, accounting for around 15% of EU GDP each year, and it increasingly supports green, social, digital, and innovation objectives, as well as infrastructure development. Procurement quality therefore affects not only the cost of public purchases, but also the quality of public investment, the credibility of strategic support and the capacity of public spending to shape markets. The link with the competitiveness agenda is direct. Strong procurement can open markets, encourage cross-border participation, facilitate the participation of SMEs, improve value for money and support innovation. Conversely, weaknesses in procurement can raise costs, delay projects, reduce competition, deter innovative suppliers and undermine public trust. Figure 2.2.5 maps three warning indicators averaged over

Figure 2.2.5: The regional relationship between public procurement risk indicators, 2011-2025 average



(1) Each point is an EU-27 NUTS2 region with complete values for the three indicators for the simple, unweighted average of the available annual regional values over 2011-2025. The horizontal axis shows the single-bid share; the vertical axis the no-call indicator; and colour the procedure-type risk indicator, from navy (lower risk) to dark orange (higher risk). The solid line is an unweighted linear fit. Single-bid share is the proportion of awarded contracts receiving only one bid. The Government Transparency Institute (GTI) interprets single bidding as the most direct administrative-data signal of restricted competition, although it can also arise for legitimate reasons. The no-call indicator identifies procurement without a related prior information notice or contract notice. GTI treats it as a risk indicator only in countries where awarding without a publicly available call is statistically associated with a higher probability of single bidding. The risky procedure-type indicator identifies non-open procedures only where the country-procedure combination is associated with a higher probability of single bidding. The underlying GTI dataset covers awarded contracts published in Tenders Electronic Daily and applies an approximate EUR 135,000 threshold. The indicators are red flags for departures from competitive procurement norms; they do not observe or prove corruption directly. Pearson correlation between the two axis variables: r = 0.28; N = 228. The relationship is descriptive and does not imply causality.

Source: European Commission based on Government Transparency Institute (2026), version 2026/03: https://www.govtransparency.eu/national-and-regional-annual-aggregated-public-procurement-data-TED-2011-2025-version-202603/

2011-2025: single bidding, direct awards without prior publication and deficient or missing procedure information. Single-bidder procedures may reflect market size or specialisation, but their overuse can also indicate a lack of competition, barriers to participation, weaknesses in procurement design, limited administrative capacity, poor market engagement or risks of favouritism. Awards without prior publication imply less transparency and can undermine trust when they are not justified by exceptional circumstances. Deficiencies in procedure information may reflect data quality or reporting practices as well as weaknesses in procurement governance. Such indicators can help identify where market engagement, publication practices, procurement capacity or data quality merit closer examination, but they are not, in themselves, evidence of misconduct: market size, specialisation, legal exceptions and reporting coverage also affect the values ([65]).

Digital government can reduce frictions. The digitalisation of interaction with public authorities can reduce red tape, improve access to services, increase transparency and lower the scope for arbitrary discretion, but reforms must go beyond moving existing forms online. Digitalisation only

([65]) The geography differs by indicator. Podkarpackie and Warmińsko-Mazurskie recorded single-bid shares of about 58% and 57%, compared with roughly 8% in Helsinki-Uusimaa. Awards without a published call averaged about 41% in Lazio but around 1% in former Nord-Pas de Calais. Risky procedure information is more dispersed, with high values in places such as Koblenz but low values across several Swedish regions.

delivers its potential benefits if combined with redesigned administrative processes, interoperable systems, enhanced digital skills, accessibility and trust. A poorly designed digital portal can reproduce or even increase complexity rather than reduce it. Addressing these barriers matters for firms and citizens alike. A number of 2026 Country-Specific Recommendations target the digitalisation of public administrations alongside complementary reform measures. Examples include Germany ("Speed up the modernisation and digitalisation of public administration, including by [...] redesigning public services to make them user-friendly and consistently available across the country") and Romania ("Improve the functioning of the public administration, especially at subnational level, by simplifying regulation and improving regulatory tools; streamlining and digitalising workflows and services, increasing interoperability across levels of government...") (Council of the European Union, 2026).

2.2.6. Public administration and effective local delivery

Public administration converts policy priorities into investable and deliverable projects. Competitiveness strategies often focus on what should be financed: skills, infrastructure, innovation, digitalisation, energy systems, firm support and regional production ecosystems. Public administration determines or strongly influence whether those priorities are transformed into credible reform strategies, bankable projects, transparent procurement, timely payments, effective monitoring and real outcomes.

Administrative capacity is the ability of public institutions to design, manage and implement policies and programmes effectively, efficiently and with accountability. Cohesion Policy implementation has provided ample evidence on the centrality of good governance for policy design and delivery. The ability to plan, coordinate, procure, monitor, engage beneficiaries, deliver services and learn from results determines whether public investment becomes productivity-enhancing territorial transformation (Box 2.2.2). Financial execution and the capacity to implement budgets is informative and a potential indicator of administrative capacity, but it is far from reliable as a proxy for quality spending.

The Cohesion Policy Capacity Index (CPCI) translates this broad concept into a programme-level diagnostic (Box 2.2.2)**.** It distinguishes between programme complexity as an operating context and the components of capacity that authorities can influence more directly. These include processes and conditions, administrative outputs, financial outputs and outcomes/results. The index therefore moves the debate beyond a narrow focus on spending speed and towards a multidimensional understanding of implementation performance. Experience with decades of Cohesion Policy implementation suggests that key criteria for success include staff skills, organisational stability, managerial capacity, internal systems, strategic planning, coordination, procurement, financial management, control systems, beneficiary support, stakeholder engagement and learning mechanisms. The 2026 European Semester Country Reports and CSRs tackle administrative capacity constraints at the local level, across a number of Member States. Related CSR examples include Italy ("Further increase the effectiveness of the public administration and further strengthen administrative capacity, particularly at local level and in the South") and Bulgaria ("Improve the functioning of the public administration, especially at subnational level, [...] developing further the skillset of civil servants") (Council of the European Union, 2026).

Box 2.2.2: From policy ambition to territorial delivery: why administrative capacity matters for regional competitiveness

The Cohesion Policy Capacity Index (CPCI) defines administrative capacity as the ability of public institutions to design, manage, and implement programmes effectively, efficiently, and with accountability (Government Transparency Institute, 2026). The index is particularly useful because it treats capacity as multidimensional. It defines it not only through staffing or resources but also through institutional arrangements, organisational coherence, procedural transparency, governance systems, financial execution, and results delivery.

The index shows that implementation performance, especially financial execution, is a powerful signal of broader institutional capacity. In the CPCI, the Financial Output component carries the largest weight – around 44% of the overall composite. This reflects not spending speed but also the predictability of expenditure, the accuracy of financial forecasting, and compliance with financial rules. In other words, absorption matters, but not as a crude "spend more, faster" metric. It matters because predictable spending, accurate forecasts, and low error rates are signs of a wider administrative system that is able to plan, coordinate, execute, and control implementation.

At the same time, absorption alone is not enough. A region or programme may spend funds but still struggle with strategy, reporting quality, project selection, beneficiary capacity, or results. This is why the component breakdown is more useful than a single ranking. It allows policymakers to see where capacity has a need (potential) to improve.

This points to three capabilities that are common across different policy areas. First, authorities need the capacity to design and identify strategic priorities. Second, authorities need the capacity to deliver and implement. Third, authorities need the capacity to adapt. Seen in this way, strengthening administrative capacity is not only about improving the delivery of national polcies or Cohesion Policy programmes. It is part of the productive infrastructure of regional competitiveness, enabling places to absorb investment, support firms and workers, and more effectively benefit from and contribute to the Single Market.

2.2.7. Conclusion

Governance is part of the productive infrastructure that contributes to regional competitiveness. It shapes how effectively firms use markets, how public investment is delivered and how common European priorities are adapted to local conditions. The regional evidence points to three findings. First, the quality of government remains territorially uneven, with less developed and transition regions still below the EU average and, more worryingly, showing some signs of deterioration after 2017. Second, governance appears particularly relevant for within-sector productivity upgrading, the margin that dominates long-run productivity growth in many EU regions. Third, operational capabilities – procurement, digital services, programme management and financial execution – determine whether policy commitments translate to timely and credible results.

The policy response should include capacity-building in its investment and reform agenda. Sectoral structure, human capital, innovation capacity, market access, finance and historical development paths all matter for regional development. Governance shapes the channels through which these factors are mobilised. It affects whether firms can invest, whether public investment is well selected and delivered, whether procurement is competitive, whether services are accessible, and whether strategies can adapt when conditions change. For the EU competitiveness and cohesion agendas, this means that public administration, collaborative governance, transparency and accountability must be understood as growth assets. They help prevent capture by interest group, protect the legitimacy of strategic EU and national public support and maximise the impact of public and private investment. They also provide the institutional bridge to the next section of the report, which examines access to services and therefore depends on the same administrative foundations discussed here.

The European Semester provides a complementary route for identifying structural bottlenecks and reform priorities.

Five decades of cohesion policy implementation have provided ample evidence of the centrality of good governance for policy delivery. Recent European Semester country reports and country-specific recommendations have repeatedly pointed to weaknesses in public administration, public procurement, judicial systems, anti-corruption frameworks, digitalisation and administrative simplification. These are not only national reform topics. In many policy areas, the practical delivery bottlenecks are regional or local. Accordingly, the 2026 CSRs point to a number of subnational reforms targeting governance, from strengthening the administrative capacity of the French outermost regions to municipal mergers (Croatia) and enhancing cooperation at the local level (Czechia and Lithuania. (Council of the European Union, 2026)

Good governance creates an important bridge between competitiveness and cohesion. The preceding chapter shows that the EU competitiveness challenge is territorially differentiated: regions differ in industrial structure, innovation capacity, digital adoption, skills and productivity pathways. This chapter shows that the capacity to address these bottlenecks also varies across regions. It also argues that weaker public administration capacity is not a reason to withdraw support from regions with high needs but an encouragement to adapt delivery, incentivise the development of stronger local capacity, project preparation and beneficiary assistance, and monitor implementation more closely.

Reforms may target numerous levels of government. Judicial independence and core administrative law are largely national, whereas permitting, spatial planning, procurement capability, digital services and beneficiary support often require regional or local solutions (see Sections 3.2 and 3.3).

A more competitive Europe requires both productive firms and capable institutions across territories. The single market provides scale and cohesion policy provides a long-term investment framework to complement and reinforce national policies. Governance determines the extent to which the available assets translate into innovation, productivity, trust and durable convergence. A multilevel view of governance can help identify bottlenecks across the delivery system, allowing for solutions tailored to local needs.