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The 14th Economic International Conference: Strategies and Development Policies of Territories: International, Country, Region, City, Location Challenges | May 10-11, 2018 | Stefan cel Mare University of Suceava, Romania

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## Strategies and Development Policies of Territories: International, Country, Region, City, Location Challenges

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### Improving Administrative Capacity in European Funds Absorption for Region South-West Oltenia

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The 14th Economic International Conference: *Strategies and Development Policies of Territories: International, Country, Region, City, Location Challenges* | May 10-11, 2018 | Stefan cel Mare University of Suceava, Romania

## Improving Administrative Capacity in European Funds Absorption for Region South-West Oltenia

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### *Abstract*

*The absorption of European funds is a process influenced predominantly by the managerial capacity of local and regional authorities and by the ability of Member States to provide the necessary co-financing. Thus, the managerial capability of the local authority in a Member State is the key to a high absorption rate of structural funds. This paper aims at revealing the poor situation of Romania's European fund absorption rate and brings to light the situation in Romania, Region South-West Oltenia, in context of the Regional Policy applied by the European Union, which targets all regions of the EU, stimulating economic growth and improving life quality by strategic investment efforts. This policy of EU (European Union), is also a form of support which orientates the efforts towards all less developed regions, as South-West Oltenia. Most studies on the administrative capacity for absorption of structural funds focused on the analysis of national and regional administrations from a financial and macroeconomic perspective, and less on the administrative capacity of local authorities. The paper focuses on identifying the main factors of local authorities in absorbing structural funds, at the level of Region South-West Oltenia, Gorj and Valcea counties from Romania and finding solutions for increasing the level of absorption.*

### **Keywords:**

*Administrative capacity, European funds, financial capacity.*

**Jel Classification:** G21, G28, R58.

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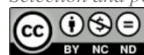
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## 1. Introduction

Difficulties in absorption of structural funds have occurred mostly in Central and Eastern Europe, as a result of domestic problems related to institutional organization. Studies on institutional capacity, practices and attitudes of local authorities regarding management of structural funds in these states are not abundant. However, by analyzing the few data from these papers, we may affirm they have encountered difficulties in funds absorption, due to lack of a long-term strategies of the authorities, insufficient co-financing resources, low capacity to manage these funds by local and central administrations, lack of inter-institutional cooperation and limited human resource abilities [4].

In one of the studies conducted by the European Commission in 2002 entitled “Key Indicators for Candidate Countries to Effectively Manage the Structural Funds”, three factors influencing the absorption capacity of these funds have been identified: macroeconomic absorption capacity, financial absorption capacity and administrative absorption capacity [2]. Due to the fact that specific literature in this field has focused more on the first two factors, the present paper deals with the administrative absorption capacity at the level of administrative units in a Member State.

The main purpose of this paper is to identify the main factors influencing the administrative capacity of local authorities in Romania, translated by their poor absorption of structural funds. Due to the extensive research area, the paper focuses on identifying the main factors of local authorities in the absorption of structural funds, at the level of Gorj and Valcea counties from Romania.

The motivation of this paper is related to the extent to which the administrative capacity of local authorities influences the degree of absorption of structural funds at national level.

As a result of the preliminary observations, but taking into account the existing literature in the field, they lead to the following ***working hypothesis: local authorities that have administrative capacity access more structural funds.***

In support of testing this hypothesis, there come a series of questionnaires, semi-structured interviews and participatory observations, which allow for a more rigorous examination of the study issue. Thus, a total of 7 interviews and 68 questionnaires were carried out at the level of city halls in Gorj, Valcea counties, among the respondents being mayors, deputy mayors, local councilors. Out of the 68 questionnaires sent, only 62 were received back, from which only 59 have been taken into account, having more than half of the questionnaire questions answered.

## Absorption capacity

A review of the literature on absorption capacity of structural funds highlights the lack of relevant concepts on this subject. In the vast majority of these studies and papers, the absorption capacity is defined as the extent to which a country is able to effectively and efficiently spend the financial resources allocated from the Structural Funds. Achievement of this goal depends on the institutional system set up at national level in order to manage these funds and on the beneficiaries' absorption capacity. These elements are associated with the structure of the national economy, the salaries set at the level of institutions, the administrative capacity and capability and the political system [3]. In fact, this paper focuses on both aspects, taking into account the fact that local authorities are in both situations.

The main instrument used by the UE for promoting its regional development policy is the Structural Fund. These are the result of all member financial contribution according to their respective economic power evaluated as GDP and once again redistributed back to those countries of the EU that need them the most.

Shape 1 reveals how the Cohesion Policy was applied in the last finished tracked period of appliance – 2007-2013. Out of a total of 347 billion euros available, more than 70% was allocated to convergence, while the least of the 3 directions was received by the so-called European Territorial Cooperation.

In context for the 2014-2020 period of time, the Cohesion policy has underwent a reformation process which aimed at maximizing funding impacts and increasing the European add value of this policy by the use of:

- Strengthening strategic planning and focusing interventions on Europa 2020 general strategy;
- Aiming for performance by improving stimuli system; improving results;
- Supporting the use of new financial tools;
- Consolidation of the government;
- Enforcing the territorial dimension of cohesion;
- Building up partnerships;
- Simplifying the system in charge of applying everything;
- Improvement of the financial management;
- Reducing administrative hold-ups and ensuring financial discipline.

All these elements were taken into consideration by the rulebook which governs the cohesion policy planned for the entire period of 2014 to 2020.

Macroeconomic capacity is measured and defined taking into account of the Member State's Gross Domestic Product [5].

The financial absorption capacity defines the ability of local and central authorities:

- To co-finance programs and projects supported by the EU;
- To plan and ensure these national contributions in multi-annual budgets;

- To collect from various partners involved in a project or program.

The concept of administrative capacity refers to the capacity to prepare and implement administrative work for / or by applicants.

In line with the factors outlined above, absorption of structural funds is a process influenced predominantly by the managerial capacity of local and regional administrations and by the ability of Member States to ensure the necessary co-financing. The relationship between the absorption capacity of the Structural Funds and the economic situation of a given region is paradoxical, demonstrating that the most disadvantaged regions also have to deal with big problems regarding the absorption of these funds [4]. On one hand, local authorities in these regions do not have the necessary experience and qualifications, adding here the bureaucratic procedures that considerably slow the implementation of a project. On the other hand, there is the reluctance of local authorities to collect financial contributions in order to support co-financing of a project. As we have seen, absorption depends greatly on institutional factors, be they national, regional or local.

## **Administrative capacity of local authorities**

The vast majority of studies on administrative capacity absorption of structural funds has focused on the analysis of national and regional administrations, and less on local administrations, which in a decentralized national system, such as Romania, are the basis of the system and of efficient and effective implementation of structural funds [1].

Furthermore, I shall analyze the administrative absorption capacity of Romania at the level of the local administration, specifying the main factors that led to a low degree of access of local authorities to structural funds, and implicitly a low absorption of these funds at national level.

The administrative absorption capacity of structural funds currently faced by Romania reflects the lack of effective national policies in the field,

lack of experience and low capacity for implementation of funds by local authorities, and poor information between local authorities and regional and national ones. The administrative capacity of local authorities depends on Romania's chance to finance economic development.

### **The administrative capacity of local authorities in Gorj and Valcea counties**

The questionnaire was structured into six sections, which are the indicators of this case study: the existence / absence of financial and human resources to support European funded projects, partnerships of town / city halls with consulting companies, the relationship with central and regional authorities in this field, the influence of political factor on the municipalities' administrative absorption capacity, information on European funding, and last but not least, the experience of mayors in accessing structural funds.

Human and financial resources available to local authorities, in this case municipalities, are a basic element in strengthening their capacity to develop and prepare eligible projects and to manage them properly during the implementation stages.

From the data obtained, a less pleasing aspect was remarked, i.e. there are still municipalities that do not have personnel in the administration to handle strictly the management of European funds. The town halls disadvantaged in this area are those in rural areas, creating thus a major discrepancy between urban and rural municipalities as regards the organizational structure of a department specialized in accessing European funds. What is interesting to note in this case is the fact that within rural town halls where there is a sufficient number of personnel, prepared for drafting such project applications, special departments to handle financing allocated through external and internal programs have not been set up.

With regard to municipalities that already have personnel trained in accessing structural funds, two issues have been identified. A first problem relates to the fact that in relation to the workload which is very high and to the complexity of the projects, the personnel is insufficient. In fact, a widespread opinion is that "persons appointed for the purpose of obtaining structural funds have other tasks on the job line, time representing a problem in this case"<sup>1</sup>. The insufficient financial resources also lead to the impossibility of employing strictly specialized persons to access structural funds and to maintain them on the job. Exceptions to this rule are the city halls, including the Targu Jiu City Hall.

The second problem is the migration of the personnel trained in project management to the private sector, leading inevitably to the first stated problem, namely the lack of personnel. This is closely linked to the “lack of financial motivation of those who implement these projects, the responsibility being very high, and the 75% increase in the management of the structural funds is not yet resolved at the level of county councils and city hall”<sup>iii</sup>. In this case, the money invested by the city halls for specialized courses, in order to train personnel in project management, are lost without concrete results in this respect.

„Due to the fact that we do not have personnel specialized in accessing structural funds, there is not a department specialized in the management of projects with European funding with the town hall, and we have to call on, for example, the secretary who usually is involved in elaborating the application. However, we can not say that we have no interest in attracting funds, right now we have a project in place, we simply do not have the adequate financial and human resources for such project”<sup>iii</sup>.

Another aspect that I was trying to capture is if these town halls have the budgetary capacity to finance the implementation of projects with European assistance and implicitly if they have funds to ensure their co-financing. In various special studies, there is a general idea that the number of projects developed for non-reimbursable financing is reflected in the low capacity of local authorities to bear the necessary costs for drawing up the entire documentation. The great majority of town hall representatives have underlined that one of the problems faced by the vast majority of town halls is related to the reduced budget capacity of the town. The ability of these town halls to apply for structural funds is determined, most of the time, by the local budgets they have.

This incapacity to finance projects is under the influence of a number of factors. Such a current economic and social situation has led the two County Councils to reduce the funds allocated to municipalities for the financing of projects. A second factor is represented by the own town halls incomes, which can partially cover the running costs, because, according to the answers given, they have a low-budget, net lower to the needs of respective localities. Neither the degree of tax collection is bigger, as result of the poor financial situation of the population. Practically, these town halls do not possess the necessary sums for the elaboration of applications to access the funds, sums that usually are paid at the submission of the project and which shall be paid by the person ordering the application, after which, if the project is selected for funding, reimbursement of those costs is done.

Ensuring the co-financing is a key element in the implementation of a project with European funding, because it is necessary, on one hand, to

support the financing of the own contribution and, on the other hand, to ensure the gap in payments existing between the payments related to the investment project and the reimbursements from the European Union.

Thus, the elaboration of the projects, which initially involve money for the elaboration of the feasibility studies and the project in general, and in the second stage the co-financing of the works, is expensive. The financial contribution that a town hall supports for a project, may influence and others projects of this nature, because a town hall can access also others funds in the moment when the project that is in progress is finished. However, according to the guidelines for the financing of operational programs, in the vast majority of the intervention areas, the financial contribution of a local authority is 20%, which is not easy to support under the given conditions.

Even though all town halls have expressed the desire to submit as many projects as possible, their limited budgets do not encourage such initiatives: “we have not been able to achieve all the projects we have proposed because of lack of funds. There would be much to do in the locality, like sewage, infrastructure improvement, gas supply and more, but they would have to wait”<sup>iv</sup>. This „fear” and reticence of town halls to submit projects increases due to “changing rules during the game, so far the procedures and funding guidelines have been changed several times, but this did not necessarily mean simplifying the criteria eligibility”<sup>v</sup>. A major part of the Applicant's Guidelines have been frequently modified, causing confusion among applicants. These changes were done due to the fact that “Management Authorities were not really prepared to run project sessions, having to make adjustments on their way, which unfortunately affected a number of projects undergoing the process of submission or even assessment”<sup>vi</sup>.

City halls have been obligated to recourse at the consultancy firms to write this kind of project applications.

However, this relationship between consultancy firms and local authorities is influenced by a number of factors. A first factor that town/city hall officials have identified is financial. As a rule, the selection of consultancy firms is made through a public tender, as a result of the large amounts relating to projects, and these companies request a commission from the value of the entire project. In most cases, consultancy companies require the value of the services provided after the submission of the project applications and until they are been approved, and most of the time “the town halls are unable to pay unless the financing is approved”<sup>vii</sup>. Most companies work without ensuring the finality of the applications submitted, i.e. declaring the project as eligible for funding.

As a matter of fact, all consultancy firms are asking for a commission on the preparation of the documentation, which can also reach 10.000 euros, plus subsequent payments, if the project is approved. Officials of town halls have stated that they usually have to pay an advance of 30% of the total price set, and the rest shall be paid for the feasibility study. However, the necessary costs for the execution of topographical surveys, geotechnical studies, obtaining permits are not included in the initial price, they are to be paid directly by the town halls.

A second factor underlying this relationship is the insufficient human resources of these town halls in elaborating project applications for European funding. Town halls do not having the financial capacity to ensure permanently the salaries and personnel training to obtain European funds, then they are obligated to contract to such companies, although, on long term, the investment in personnel training could reduce the dependence of the town halls on these companies, and implicitly costs. The costs for such type of consultancy resulted in specific tensions between the town halls and the respective companies. Apart from questionnaire questions, there were representatives of town halls who stated they were about to get to court because of the financial inability to pay the total price of services provided by consulting companies.

What is interesting to note is that, town hall officials who responded, stated they were consulted in a small extent by the county authorities on European funding, and they remarked that the political factor is a key element in establishing a relationship with County Councils in this domain. Moreover, the respondents indicated this even if they were not explicitly asked about the influence of the political factor on the degree of absorption of structural funds. In the county of Valcea, out of 32.4% in this category, 28.7% stated that “if you are part of the political team at the level of the County Council, you have a better chance to be called for consultations and to receive help to elaborate such of projects”<sup>viii</sup>, if the respective town hall does not have necessary human and financial resources. In Gorj, out of 35.6%, 29.4% included the political factor among the factors that determine the inter-institutional relationship. Thus, the political colour of the county council may influence the degree of access to the structural funds by certain localities, and this influence may be negative if the town halls do not meet the above requirement. However, this political affiliation, as we have seen from some discussions with town halls, can also be extended at regional or national level, more precisely when submitting projects.

„Let's say right, many of the projects have political backing. If you do not have political support and someone who to support you, you usually think about your chances that your project shall be accepted. For example,

we had a project for the sewage system. Projects' order on the list is based on how long you manage to elaborate it, and the higher you are on the list, the better your chances of success. We submitted it among the first ones, that is, I was number 4, but until the end I realized I was in the queue. The following year, during next project session, our project was approved<sup>29ix</sup>.

Initially, the political factor was not introduced into the field of analysis of the case study, but after discussions we had with some mayors of the localities of the two counties and the results of the other territorial questionnaires, we noticed that the influence of politics was mentioned. Some implications are found at the county level, these include the reduced or non-existent financial support received by some town halls, and if some mayors benefit of human resources from the County Council for the drafting of projects, others can not brag of such support.

**Information** on funding of the Structural Funds is a basic element for potential beneficiaries, both in terms of project elaboration and submission. A perspective focuses on sources of information where town halls have found useful information on European funding opportunities. The second perspective refers to the implications of central, regional and county authorities for informing municipalities about funding opportunities.

Regarding the sources where town halls find useful information on European funding, the Internet is seen as the main source in this respect, mainly by the town halls in rural areas. Among the most visited web sites are those of the Management Authority, followed by the relevant Ministries websites and the Government website. Other sources of information besides the internet, which were frequently mentioned by the respondents, include meetings organized by the County Council, seminars and conferences organized by central and local authorities, calling on various persons with experience in projects with European funding, consultancy companies, media, and information from other town halls. Among the variants of the response there was also the information obtained at seminars organized by NGOs or other private institutions, where no town hall has checked this source, fact which highlights the low involvement of such organizations in increasing the absorption rate of European funds by local authorities. One positive thing I noticed is that a growing number of rural town halls participate in seminars and meetings organized by the County Councils and the South-West Oltenia Regional Development Agency, which until recently was attributed more to city halls in urban areas.

There are also town halls that have stated that the adjacent staff dealing with structural funds management is not fully informed about the way in which a project is being developed, and they document through online guides. Often, these funding guidelines contain information that is

insufficient to produce an eligible project, and the frequency with which they are amended can only constitute another impediment to accessing funds.

## Conclusions

The results of this research indicate that there are still problems with administrative absorption capacity among local authorities in Romania. Although the area of investigation of the study in question is limited, as compared to the number of municipalities at the national level, these gaps in the structural fund management system tend to become generalized.

The results of the study reveal the validity of the general hypothesis that local authorities with a strengthened administrative capacity access a larger number of structural funds. Of course, the three working hypotheses were also tested. The indicator relating to town hall information has validated the first one, i.e. well-informed local authorities access more structural funds. Two other indicators of human and financial resources have demonstrated the following: the fact that local authorities with insufficient and untrained personnel access few funds and local authorities with low co-financing capacity access few funds. South-West Oltenia Region is still far behind other European regions when talking about fund absorption. Authorities should stimulate creation of new projects and new opportunities, to absorb more financial resources.

Discoveries could be a starting point for more in-depth research on the subject. One possible direction of investigation would be to analyse at least two town halls from each development region and to see whether the validity of hypotheses tested in town halls in the two counties can be applied at national level. The relevance of this approach relies in the fact that it might become a replicable pattern for the identification of main factors that generate a low level of absorption of structural funds at national level.

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## Endnotes

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- <sup>i</sup> Mayor of Sutești locality, county of Vâlcea, interview with Loredana Popescu.
  - <sup>ii</sup> Official of Săcelu locality, county of Gorj, interview with Loredana Popescu.
  - <sup>iii</sup> Official of Roșia de Amaradia town hall, county of Gorj, interview with Loredana Popescu.
  - <sup>iv</sup> Mayor of Roiești locality, county of Vâlcea, interview with Loredana Popescu.
  - <sup>v</sup> Mayor of Arcani locality, county Gorj, interview with Loredana Popescu.
  - <sup>vi</sup> Mayor of Popești locality, county of Vâlcea, interview with Loredana Popescu.
  - <sup>vii</sup> Mayor of Băile Govora city, county of Vâlcea, interview with Loredana Popescu.
  - <sup>viii</sup> Official of Săcelu town hall, county of Gorj, interview with Loredana Popescu.
  - <sup>ix</sup> Mayor of Căineni locality, county of Vâlcea, interview with Loredana Popescu.