

ABSORPTION OF EUROPEAN FUNDS, PRIORITY OBJECTIVE FOR LOCAL COMMUNITIES DEVELOPMENT

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Abstract

This paper analyzes the absorption capacity of structural funds in Romania in the programming period 2007-2013 and its impact on the development of local communities from the administrative point of view.

The paper also focuses on the need to invest in institutional capacity and efficiency of public administrations using the Operational Programme for Administrative Capacity Development 2007-2013 which is a part of ESF funds that have as general objective to contribute to the creation of a more efficient and effective public administration for the socio-economic benefit of local communities.

Finally, the study reveals the problems and challenges related to local administration and its limited capacity to absorb european funds wich is a sensitive issue, especially because 2011 represents the fifth year of EU assistance for Romania to reach the stage of development of other member states.

Keywords: *Structural funds, absorption capacity, central and local authorities, local communities, local development.*

Introduction

The present paper begins with a few conceptual definitions of the notions of absorption capacity, absorption rate, administrative absorption capacity, financial absorption capacity. The next section presents the absorption capacity of Romanian central and local authorities and the main obstacles that affect the absorption processes and the local development. Chapter three focuses on the most important financial tool of EU dedicated to a major national priority "Building Effective Administrative Capacity" namely The Operational Programme for Administrative Capacity Development 2007-2013. Chapter four presents the conclusions on the actual stage of local administration capacity to implement integrated projects regarding the development of local communities and the next priority objectives that must be achieved in the next 3 years of EU financial assistance.

1. Conceptual definitions

At the beginning it is necessary to give a few conceptual definitions.

Absorption capacity expresses the degree to which a country is able to spend effectively and efficiently, the financial resources allocated through the Structural Funds. Achieving this objective depends on the one hand, on the ability of the institutional system established by that State to administer the funds in question, and on the other hand, on the beneficiaries potential to whom they are addressed, to create projects and to co-finance¹.

The **absorption rate** illustrates the absorption capacity and is defined as "the level of spending as a percentage of the total amount of Structural Funds available". Achieving an absorption rate of 100% or close to this level means that all funds that have been allocated to a country have been fully spent².

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¹ Popa, F.(2010), The Institute of National Economy, *Absorption capacity of Structural Funds in Romania*, Studies and Scientific Researches - Economic Edition, no. 15, 2010.

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Administrative absorption capacity refers to the ability of central and local authorities to prepare plans, projects and programs in a timely manner, to organize an effective partnership, to meet the administrative obligations, to finance and supervise the implementation process, avoiding irregularities³.

Financial absorption capacity expresses the ability of central and local authorities to co-finance EU supported programs and projects, to plan and guarantee these national contributions in multi annual budgets, and to collect these contributions from several partners, interested in a program or project⁴.

2. The absorption capacity of Romanian central and local authorities

As we said before, the administrative capacity defines the ability and qualifications of central and local authorities to prepare programs and projects, to ensure coordination of partners involved, to monitor the implementation of programs and projects in order to avoid irregularities.

Seeing the last statistics regarding the stage of absorption of structural funds, we may conclude that the absorption rate is low. So, according to statistics from february 2011, Romania succeeded in achieving the 9,87% from the total allocation of structural funds for 2007-2013 period.

That brings us to the conclusion that for the next 3 years of EU assistance, our public authorities ,central and local ones, must act as a responsible administration in order to receive the proper financial support for its actions regarding the development of local communities .

Taking into account the importance of the above mentioned terms and the purpose of the paper which is, among other things, to analyze the main problems that affect the absorption capacity of central and local public authorities, we have to present the main obstacles affecting the absorption processes in the local communities, such as:

- lack of experience and qualifications for central and local authorities ;
- limited local budgets for public co-financing available;
- lack of funds for the initiation and completion of feasibility studies in order to access projects;
- lack of banking products for covering the private co-financing necessary for the projects budgets;
- lack of partnerships at different levels formed for financial support (public-private partnership)

It is important to note that the problems of absorption capacity depend heavily on institutional factors mostly on the administrative capacity. So, for the next period of time, in order to create an effective and efficient public administration, capable to prepare and implement good projects that can achieve the great objective, "*local development*", the central and local authorities must use one of the most important financing tool of the European Union: The Operational Programme for Administrative Capacity Development 2007-2013.

3. The Operational Programme for Administrative Capacity Development 2007-2013⁵

The initial problem analysis for the OP ACD was based on the next assessments:

- the level of public trust in public administration; the level of public trust is low and caused by: the extent and burden of regulation on the citizen, the poor timeliness in delivery of the public services, a poor motivation of civil servants, and its underlying causes in low levels of remuneration

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³ Idem 2.

⁴ Droj,L. University of Oradea , Faculty of Economics - *The analysis of absorption capacity of European funding in the north western region of Romania*, 2010.

⁵ *Operational Programme Administrative Capacity Development 2007-2013*, Ministry of Interior and Administrative Reform, September 2007.

and an unreformed civil service, the large number of laws and the need for their frequent modification;

- the problems related to reliability were grouped under three headings: political administrative, decision making, accountability and organizational effectiveness. These problems are common to both central and local levels of administration;

- the poor responsiveness of public services to the needs of citizens. This issue was used to group problems that directly affect the provision of services, including resource allocation, the need for greater attention to quality, the opportunities for process change.

In this context, The Operational Programme for Administrative Capacity Development is designed to substantially contribute to the achievement of the thematic priority “Building Effective Administrative Capacity”, established in the National Strategic Reference Framework (NSRF).

Public institutions can contribute to local socio-economic development programmes through the performance of the following functions:

- improving decision making processes, including the quality of major investment choices (knowledge and human resources) and project selection (information, regulation and feed-back mechanism);

- ensuring a better implementation and enforcement of legislation;

- improving the regulation mechanism especially through setting up a standardized model for quantifying the compliance costs imposed by issued regulation;

- ensuring adequate framework for economic activities (human resources, data, legal);

- improving the public decision making processes;

- ensuring quality and efficiency in public service delivery;

- increasing the number of civil servants who hold professional qualification in HRM, finance, economics and law.

The situation analysis identified three priority sectors for support - health, education and social assistance. The basic idea is that the funds spent in these priority areas will seek to ensure that Romania has a sufficient, adequately trained, well managed work force, in good health so as to be able to develop the economy on competitiveness terms.

The OP ACD recognizes four guiding principles:

1. Participation: the OP ACD seeks to reach a higher level of trust from citizens through the impact on the functioning of institutions, improved responsiveness to public needs and thus significantly positive effects on socio-economic development.

2. Rationalization of structures: the OP ACD is expected to create new structures, to modify the existing ones, to change the relationship between central and local administration, leading to a more responsive and empowered local administration to meet the needs of citizens and to generate local development.

3. Efficiency: the OP ACD seeks a real and substantial improvement in the efficient delivery of decentralized public services at local level - a fall in consumption of resources and a qualitative and quantitative increase in output without a comparative increase in resources.

4. Sustainability: the OP ACD seeks sustainable improvement in the supported fields. This is why the interventions are based on an appropriate combination of structural, process and capacity development change.

The general objective of the OP ACD is *to contribute to the creation of a more efficient and effective public administration for the socio-economic benefit of Romanian society.*

There are also two specific objectives:

- 1: To achieve structural and process improvements of the public policy management cycle.
- 2: To improve the quality and efficiency of the delivery of public services on a decentralized basis.

The OP ACD is implemented through three Priority Axes, including a Technical Assistance Priority Axis as listed below:

Priority Axis 1: Structural and process improvements of the public policy management cycle;

Priority Axis 2: Improved quality and efficiency of the delivery of public services on a decentralized basis;

Priority Axis 3: Technical Assistance.

The first two Priority Axes complement each other, but there are relevant differences between them:

The Priority Axis 1 deals mainly with conceptual, horizontal issues in the areas of decision making system, aiming at increasing the quality of decisions within public administration by developing mechanisms for substantiating policy initiatives, increasing the effectiveness of organizational structures through better planning, and strengthening the accountability framework. Activities under Priority Axis 1 concern the system for all central and local administration, including the priority sectors (Health, Education, Social assistance, Training programs for civil servants) ;

The focus of **Priority Axis 2** is on mechanisms for the implementation of policy and the delivery of public services through fiscal and administrative decentralization from central to local administration and targeted improvements in quality, timeliness and assessment of public services.

Both Priority Axes have elements of structural and process change and involve substantial investment in training for civil servants and contractual staff.

This approach of differentiating between quality of service delivery in a decentralized way and strengthening decision making system is considered as sound basis for the development of administrative capacity.

Priority Axes 1 and 2 are supported by five key areas of intervention. These are strategic responses to the problems identified. Figure 1 will show the diagram of the overall OP objective the priority axes and key areas of intervention.

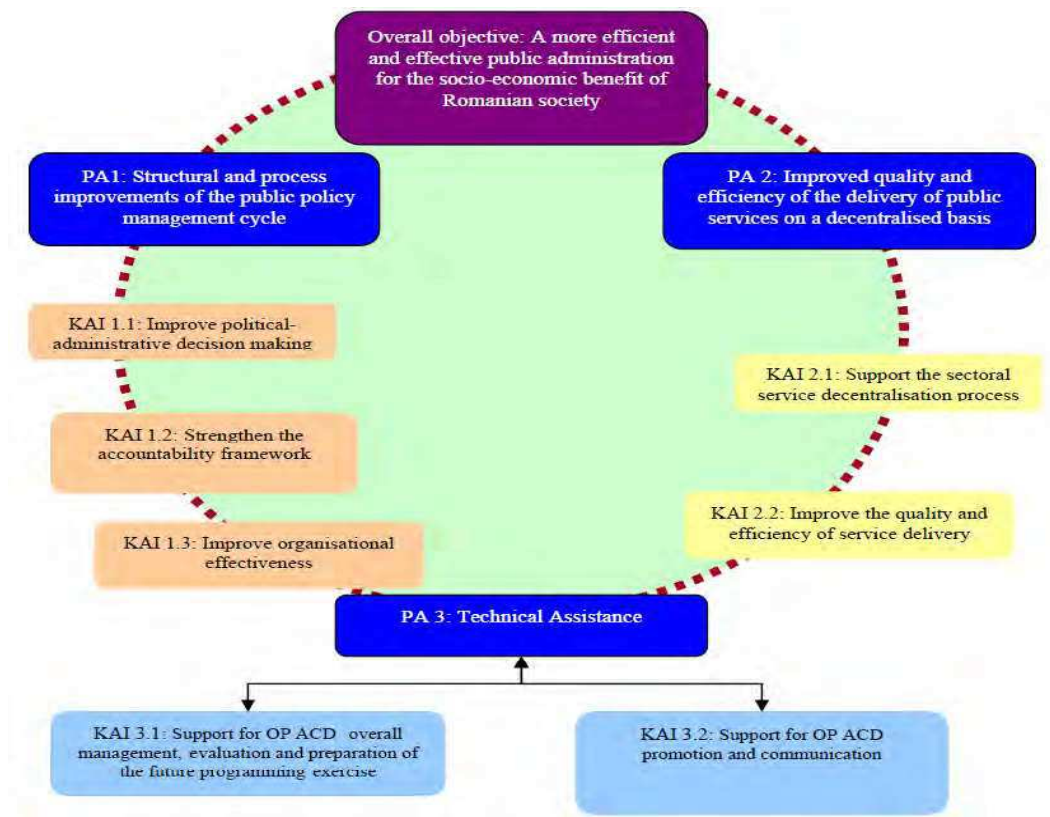


Figure 1. *Priority Axes (PA) and Key Areas of Intervention (KAI)*

Numerous European documents, such as The Community Strategic Guidelines for Cohesion, The Lisbon Strategy, The European Commission Reports present improvement recommendations for the efficiency of local public administration and point out the need to invest in the institutional capacity of local administration in order to deal with a set of socio-economical challenges and good government, especially regarding the local development management.

Accessing OP ACD, the public administration has the opportunity to develop their capacity as good managers of their own resources and to strengthen the ability of a better representation of their communities, building strong partnerships, implementing and monitoring local policies and well based strategies for socio - economic development.

4. Conclusions

Most of the factors causing a lower absorption capacity of Romanian local and central administration, as potential beneficiaries of EU funds, can be summarized in the following lines:

- Low level of expertise and low qualifications regarding the accession and management of European funded projects;

- Low reaction regarding the process of elaboration, proposing for financing or evaluation and contracting of projects;

- Low financial and management capacity;

Since these are the main causes that threaten the successful absorption of EU funds great measures should be taken both at the level of Programme Management Authorities and at the level of the beneficiaries.

Taking into account the low absorption of EU funds, the Romanian Government had to compile a long term planning of contracting targets, terms of payments and expenditure declarations which was presented to European Commission in order to avoid the risk of withdrawal of financial support starting with 31st of December 2011.

The action planning sent to the EC identified the same problems and obstacles as we have presented in this paper.

In order to solve these problems the Romanian Government settled semester targets regarding contracting payments and expenditure declarations for each Operation Programme.

Besides the planning mentioned before and in order to overcome the absorption problems we may also mention a few purposes to fulfil⁶:

- Regional development by creating the conditions necessary to stimulate economic growth of less developed regions, the promotion of sustainable economic and social development. There is requirement of necessary investments in infrastructure, transport, energy, social investment (health, education), environment, tourism investments. In fulfilling of these objectives, there is ROP (Regional Operational Programme) with any destinations on the priority axes. Government must find solutions to ensure the level of public co-financing and to create conditions to attract private capital investment.

- Romania has the opportunity to decide the rate of funding per project taking into account the balance of the all operational program in question; therefore, authorities should decide the extent of supporting projects, at 100% of Community assistance, to be taken on the sectors which have real value added in the process of economic development, or in the sectors where the potential beneficiaries have difficulty in providing their share of co financing.

- Given the difficulties of local governments to ensure necessary co-financing resources, the easiness for local governments access to financing, by taking the measure to increase the debt ceiling, would mean a concrete granted support for them, conditional on the existence of guarantees property insurance; these measure should be taken with caution, so as not to reach the situation where the government is obliged to support the effort for repayment of loans.

As a conclusion of all the aspects addressed in this paper, one may say that the financial support of EU funds is a great opportunity for central and local administration in order to develop the communities from social and economic point of view. The local public administration authorities are the main actors of local development. They are responsible for ensuring the possibility of developing the local communities in the observance of European standards.

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