

## **IMPROVING THE ABSORPTION OF EUROPEAN FUNDS BY PUBLIC ADMINISTRATION: CASE STUDY ROMANIAN CITY-HALLS**

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### **Abstract**

*Currently, the main source of financing regional development programs are European grants. There are some factors that affect the access of the Romanian local administration to these funds and our paper aims to identify the causes of inclusion or exclusion of certain communities from them. We explored four main factors that can influence the level of EU funds absorption: human resources, problems of mayor's offices, investment experience and public-private partnerships.*

*The results of our research based on more than 60 city halls of cities larger than 10,000 inhabitants from Romania, reveal the factors that hold them back from obtaining the funds needed so much in order to develop effectively. The study proposes solutions in order to eliminate or reduce these risk factors.*

**Key Words:** *public administration, european funds, development, risk*

**JEL Classification:** H10

## **1. INTRODUCTION**

### **1.1. Romanian Public Administration History after the World War II**

At the end of World War II, Romania developed into a communistic dictatorship with its own unique particularities. The public administration was centralized and the local autonomy was submitted to the will of the leader of the national communist party (Iftimoaie, 2000).

Starting with December 1989 the country began its slow and painful transition towards a democracy and a free-market capitalism, a direction diametrically opposite to the pervious era. This transition coincided with the larger worldwide transition from the Cold-War era to the new era of Globalization, a phenomenon that deeply affected the entire world. The early 1990s were characterized by the dismemberment of the old traditional role of the state with its absolute monopoly on power and ownership. State resources were privatized without a clear direction or a roadmap, and the void left by the Romanian Communist Party with its mammoth administrative network was replaced by a plethora of political parties competing for power and influence. In 2004, Romania was invited to join NATO, an event that brought with it additional changes and demands placed upon the political and administrative leadership of Romania (Layne, 2006). After 10 years of negotiations, Romania becomes a member of the European Union.

### **1.2. Romania and The European Union**

In 2007, adding to the international pressure, Romania was admitted to the European Union. These events dominated public administration reform for the years leading to the EU integration and continue to do so on issues such as entry into the Schengen area, structural funds absorption, justice reform and the decentralization of basic public services such as education, health and culture (Craciun and Collins, 2008).

### **1.3. European funds pre and post integration**

In the process of Europeanization of the national administration, government, culture, and social life (Matei and Matei, 2008), European Union is offering some structural funds that will speed up the process and create a sustainable approach.

A percentage of 1% of the total annual budget of EU is allocated to the European Union's Growth Domestic Product GDP. Almost 43% of the budget is assigned to European Agricultural Fund for Rural Development. One of the most important goals of the EU is sustainable development of every region (European Commission, 2010).

The European Commission adopted a regional policy whose purpose is to increase regional development through the European Regional Development Fund (ERDF) and stabilize the economy through the Cohesion Fund (CF), and a social policy whose

objective is to increase job opportunities and employment through European Social Fund (ESF) (Dick, 2001). The funds available to local city halls are divided into two different categories: one European Agricultural Fund for Rural Development (EAFRD) and the other one is Structural Funds (SF) which is created by the activity sector (Soros Foundation Romania, 2010).

## **2. RESOURCES THAT AFFECT THE ACCESS OF THE ROMANIAN LOCAL ADMINISTRATION TO THE EUROPEAN FUNDS/ INSTITUTIONAL CAPACITY**

Romania is not alone in this monumental task: traditional and new democracies alike are in the painful process of reshaping their public administrations to cope with the changes of the twenty-first century raging from demographic issues to economical to financial and environmental, to name but a few. Ironically, public administrations from over the world are asked to provide higher and higher quantities of high quality goods and services while at the same time have less and less resources to do so.

The crafting of new strategic capabilities to improve government performance in both of its traditional roles is an imperative of the new global era. It involves crafting the following three underlying governance capacities: a *public service delivery capacity*, an *adaptive capacity*, and *advancement and development capacity*.

Institutional capacity is a term used to describe a series of resources such as: financial resources, human resources, and partnerships with other public and private institutions. (Soros Foundation Romania, 2010)

### **2.1. Local Budget**

Public administrators along with their politically elected masters have to provide and increase the level of goods and services of an ever increasing higher quality while their budgets are continuously slashed by the global financial and economic crises (Davis, 2007).

The difference between the local budget and the national budget is represented by the level of decentralization. Local budgets are decentralized and they are characterized by flows both from inside and from the relationships with outsiders. Centralized authorities have no right to impose the execution of a project to the local authorities without giving them the requested financial resources. The main sources of local budget are taxes. This source reflects the major difference between public and private financing (Bacanu, 2008).

The European Commission report emphasizes the failure of local authorities to provide quality management because of the lack of administrative capacity including their budgets, the incapacity of the local authority to use their power in the benefit of the community, and the dependency upon the central and regional authorities (Neamtu and Dragos, 2007).

## **2.2. Civil servants professionalism**

A new administrative capacity must be build so it can handle adequately global affairs across the economic system (Farazmand, 2009). This capacity must be designed at both the macro and micro levels. The macro-level administrative capacity has to do with organizational, institutional, policy, and managerial issues of public governance and administration. The micro-level administrative capacity has to do with the acquisition, the refinement and the applicability of those managerial, administrative, and technical tools so it can accomplish the objectives set forth by the macro design. These micro-level capacities are rooted into the individual's culture and take longer and require different tools to change. The macro-level administrative capacity, that is required as a modest roadmap that Romanian public administration reform, ought to consider in its reform efforts for the age of hype-turbulence and its attempt to regain legitimacy in the eyes of the Romanian and European public.

Theories of change and reform explain that change can come from bottom up or top down, through institutional reforms, reorganizations, reinventions or revolutions (Peters, 2001). Natural processes of change also comprise the inner forces of movement, transformation, and evolution in human ideas and behavior (Capra, 1984), through "mutual causality" (Weick and Sutcliffe, 2001) and "self-organization" of organic systems (Jantsch, 1980).

Both theory and practice at the international as well as the national levels need to retool and develop skills, cultures, new sets of knowledge and designs that are nonlinear, prepared for surprise, entrepreneurially oriented that can meet the challenges of this new age of "unreason" with its rapid changes (Morgan, 2006) and "chaos" (Murphy, 1996).

In the globalized world, public administrators must learn not only to manage the tangible resources of their cities (infrastructure, healthcare facilities, etc.) but must focus on the attraction of qualified talent that commands higher and higher wages on the world scale. Location is all but irrelevant when the products of intellectual capital can move instantaneously around the globe and employees can live almost anywhere (Friedman, 2005).

Trust, legitimacy, and institutional capacity will only be restored in both developed and developing nations through the restoration of transparency, accountability, and ethical standards.

Developing strategic human capital across the nation is imperative in developing governance ability. This has to be built by using an effective application of technological innovations, human intelligence and creative ideas that can lead to breakthroughs in government, business and society (Drucker, 2001).

The intangible concepts behind institutional capacity building represent a new and powerful tool of comprehensive strategic thinking that captures and institutionalizes innovative ideas and the rules of conduct that leads to them.

In his 2001 book, “Institutions and Organizations”, Richard Scott talks about the fact that institutional theories – especially neo-institutionalism – stresses the vital importance of legitimating ideas, structures, processes, and “cognitive values” in societal systems.

Most public administrators’ reformers – especially in the developing world – are convinced that the primary instruments that constitute an institution are the tangible assets. They are overly obsessed with buildings, equipment and tools that are important but cannot substitute for the absence of proper organizational culture (Schein, 1992).

### **2.3. Partnership between the city hall and other public or private institutions**

Public Private Partnerships (PPP) are agreements between the public organization and the private organization in order to achieve the common goal of providing services and facilities for the community. These partnerships are signed between a public institution and any of the following: an independent person, a profit organization, a nonprofit organization, or a public national or international organization (Bacanu, 2008). PPP includes any type of outsourcing and joint ventures between public and private sector. These partnerships are designed to share the risk, responsibilities, investment and rewards in order to maintain a good public infrastructure and services (Ministry of Municipal Affairs, 1999). PPP or the 3Ps is driven by the belief that private sector can perform some public services more cost effectively and efficiently, and the public sector should focus on its core functions in order to be more advanced (Hans, 2009). In order to create wealth, PPP need to be used in such manner to balance the strengths of both public and private sector (National Council for Public-Private Partnerships, 2009).

In the crises years the PPP increased substantially in EU before 2008 but since then declined considerably. This can be interpreted as a reversal of an extraordinary spike in the years preceding the crisis (Kappeler and Nemoz, 2010). Romania sees the PPP as a solution in these crisis times and a formula of success in the process of absorption of the European funds (Vass, 2009).

### **3. SOCIAL INCLUSION**

One of the issues that Romania faces in the process of integration and absorption of the structural funds is related to social inclusion of the minorities living in the country. Hungarian minority represents the largest minority community in Romania, followed by the gypsy community. The gipsy minority is perceived as being a problem because of the low responsiveness to the state’s attempts of integrating them in the society. Delinquency, low level of education, and discrimination are some of the issues that need special attention in order to improve the Romanian overall social situation (Pons, 1995).

### **4. RESEARCH METHODOLOGY**

The present case study is a quantitative research on the general Romanian public administration issues. Questionnaires were sent out to all city halls of all 170 cities larger

than 10.000 inhabitants. It was mailed out or send by fax and during July 10, 2010 to September 10, 2010 a number of 63 city halls have responded.

The questionnaire was elaborated using part of the questions from the *Local Authorities Facing European Funding Research Study* elaborated by the Soros Foundation in 2010 (Soros Foundation Romania, 2010). The main sections of the questionnaire covered general data about the city (section 1), information upon the city hall activity and results in the last year (section 2) and information regarding the economic activity of the region (section 3). It ended with the identification data of each respondent and institution contact details.

The study had a 37% rate of valid responses, covering all seven main economic regions of the country (Table 1). The low rate of response is due to the fact that public institutions are not used with answering such elaborated surveys, as well as a certain degree of reluctance to providing internal information. 84% of the city halls were representing cities with less than 40.000 inhabitants, following the same pattern as the population distribution.

Table 1 - Economic regions of Romania – research coverage area

<b>Region</b>	<b>Percentage of responses</b>
North-East	14%
West	17%
North-West	14%
Center	16%
South-East	6%
South-West	8%
South	24%

The objective of the research was to analyze the main factors that influence the absorption of EU funds within the public administration structures of small cities. Based on previous research on the topic (Soros Foundation Romania, 2010) we explored four main factors that can influence the level of EU funds absorption: human resources, problems of the city halls, investment experience and PPP's (Public-Private-Partnerships).

#### **4.1. Human resources**

Small cities have about 5-8 public officers for every 1000 inhabitants (own research, calculated as an average per regions). One of every three officers has a higher education degree. We obtained a significant correlation at the 0.01 level with a Pearson coefficient of  $r=-0.741$  for the number of employees per 1000 inhabitants and the percent of employees that have higher education. This result shows that there tends to be a constant number of people with a University diploma within the public structures, regardless of the

personal fluctuation or the number of inhabitants. However, this situation doesn't seem to be problematic for most city halls, as only 12% of the respondents indicated as a major issue the poor professional training of employees. When we analyzed the correlation between the investment done using EU funds per 1000 inhabitants and the number of University graduates that work within the city halls we found no significant correlation.

#### 4.2. Problems of city halls

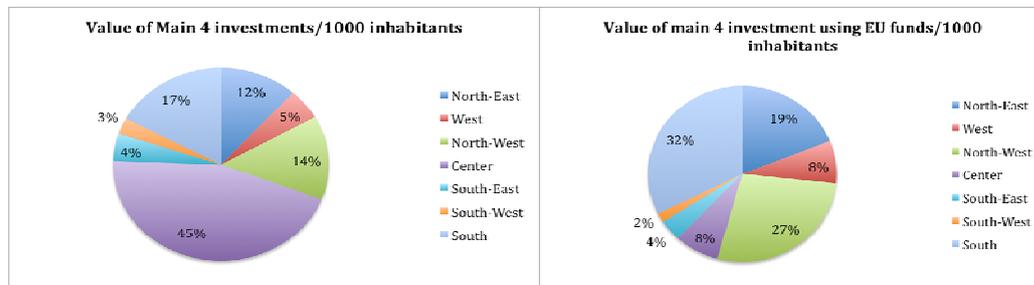
83% of the respondents indicated poor remuneration of employees as being an important or very important issue within their organization, while 79% distinguished as a great concern the lack of motivation. The results are quite surprising indicating as problematic one of the hygiene factors, money, that is known to directly influence overall performance.

#### 4.3. Investment Experience

Another factor analyzed was the experience of city halls in investment projects. The respondents were asked to mention four of the main investments done in the last years, as well as indicate the source of funding for the investments. The economic regions of Romania present such great disparities when it comes to investment, as the development of these regions is very different. The most developed region is considered to be West (5,974 EUR/capita), while the one with greatest needs in this area is the North-East (3,303 EUR/capita).

When we consider at the structure of investment per regions, it can be noticed that three regions present great discrepancies between the percentage of total investment and the percentage of investment done using EU funds. For the Center region, although they have a 45% share as value of investment, when it comes to EU funds they are behind the other regions. At the other extreme are the South and North-West regions, that are champions regarding EU funds for investments.

The North-East region is coming close behind the South, with an increased share of investments using EU funds compared to total value.



#### 4.4. PPP

97% of the respondents indicated that were involved in a PPP, and 89% mentioned a future interest in such partnerships. However, only 25% have a specialized department or personnel for PPP, which indicates that this concept is still not sufficiently well understood by city halls in Romania. This argument is further supported by the lack of a clear legislative context for PPP's, leaving it up to public administration or organizations to find the best framework for collaboration.

#### 5. CONCLUSIONS

The lack of proper financial remuneration system affects the motivation of public administration employees for seeking economic development opportunities using EU funds. Although city halls do write projects for EU funding, the high level of rejected projects, denote a low level of interest for obtaining the funds (Soros Foundation Romania, 2010).

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