10. ADMINISTRATIVE CAPACITY AND COHESION POLICY: NEW METHODOLOGICAL INSIGHTS FROM ITALY AND POLAND

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ABSTRACT

The chapter offers a comprehensive analytical framework for the study of administrative capacity and administrative capacity-building in the Cohesion Policy domain. This includes individual, organisational, and socio-economic levels of analysis. The authors examine the administrative processes for Structural Funds implementation in four case study regions in Italy (Puglia, Sicilia) and Poland (Malopolskie, Pomorskie). Based on semi-structured interviews conducted with civil servants and key stakeholders at the regional level, the chapter presents the key variables (both administrative and institutional) which have an impact on the Managing Authorities’ performance. Finally, the paper outlines the ‘lessons learnt’ from the implementation of EU Cohesion Policy in these regions.
ADMINISTRATIVE CAPACITY-BUILDING AND EU COHESION POLICY

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AIMS & OBJECTIVES

- WHAT CONSTITUTES ‘ADMINISTRATIVE CAPACITY’ FOR MANAGING AND IMPLEMENTING COHESION POLICY?
- HOW ADMINISTRATIVE CAPACITY RELATES TO QUALITY OF GOVERNMENT?
- WHAT BUILDS ADMINISTRATIVE CAPACITY AND STRONG INSTITUTIONS FOR MANAGING COHESION POLICY EFFECTIVELY? WHAT FACTORS MAKE A DIFFERENCE?

CONCEPTUAL APPROACH

[Diagram showing the relationship between administrative capacity, operational programme, beneficiaries' capacity, QoG, and implementation objectives and outcomes]
EXPLAINING CP PERFORMANCE (I)

Context factors
- National and EU legislation
- Regional political sphere
- Systemic HRM
- Socio-economic partners' capacity

Administrative resources
- Human Resources
- Organizational Structures
- Systems & Tools

EXPLAINING CP PERFORMANCE (II)

Impact of Administrative Capacity on processes

Programming
- Clear development agenda
  - Regional government stability & leadership
  - Continuity in strategy
  - Domestic programming capacity and strategy-setting
  - Input and participation in decisions on investment priorities, mechanisms and selection criteria
  - Socio-economic context

Operational processes
- Domestic regulatory quality (PP, procedures, time and cost to carry out public works - including obtaining permits)
- MLG and decentralisation (budgetary constraints at the regional & sub-regional level)
- Beneficiaries' capacity
- EU rules (changes in the way regulations are to be interpreted by the implementing bodies)
IMPROVING CP PERFORMANCE

PRELIMINARY LESSONS FOR ADMINISTRATIVE CAPACITY-BUILDING

- Context factors (i.e. regulatory quality)
  - a) can directly affect processes
  - b) cannot be addressed through ACB interventions, but should be taken into account when deciding on policy interventions.

- Sustainability of capacity-building depends on:
  - a) certain organisational conditions (i.e. low staff turnover)
  - b) presence of a supportive wider institutional context

- Ongoing, iterative process of investment in capabilities and resources.

- Developing internal expertise is more effective and durable than out-sourcing

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ADMINISTRATIVE CAPACITY-BUILDING AND EU COHESION POLICY
INTRODUCTION

EU Cohesion Policy is under pressure because of perceived problems with its performance. The past two reforms of Cohesion Policy in 2005-06 and 2012-13 have been dominated by political and policy debates on the impact and added value of Structural and Cohesion Funds (Bachtler, Mendez, and Wishlade, 2010). Research and policy evaluation over the past decade has concluded that the variable performance of Cohesion Policy is partly associated with deficiencies in administrative capacity.

The argument being that weak capacity levels can hamper the effective management and implementation of the Operational Programmes, and, as a result, negatively affect the overall regional development outcomes (Ederveen et al, 2006; Cappelen et al, 2003; Milio, 2007; Bachtler et al, 2010; Bachtler, Mendez and Oraze, 2013).

The debate on administrative capacity is part of a wider discussion on the importance of quality of government or ‘good governance’. Some studies (i.e. Filippetti and Reggi, 2012) have found that there is a positive correlation between aggregate dimensions of institutional quality and selected proxies of CP performance (i.e. absorption of EU funds). Despite the growing attention being devoted to the topic of administrative capacity in the CP domain, there are still significant definitional and methodological challenges in conceptualising and measuring administrative capacity, explaining its influence on EU Cohesion Policy performance as well as understanding whether and how administrative capacity can be developed.

Firstly, previous studies have tended to focus on the individual productivity or efficiency of processes (i.e. Milio, 2007) with respect to a single administrative body - the Managing Authority (MA) - while largely disregarding the fact that EU co-funded Operational Programmes are not delivered through

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7 Widely used quality of government indicators include data collected by the Quality of Government Institute and the World Bank Global Governance Indicators. For example, the World Bank reports aggregate and individual governance indicators for 215 economies over the period 1996-2014, for six dimensions of governance: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption.
a single organisation. Rather, they involve a whole range of actors, including the regional political sphere, the administrative units in the wider administration, intermediate bodies, and the representatives of the socio-economic interests as well as beneficiaries of the development programmes (i.e. municipalities, SMEs). Thus, the role played by these actors and their ability to govern processes is also of critical importance for the achievement of implementation objectives.

Secondly, aspects related to the quality and functioning of institutions should not be overlooked. The efficient delivery of public policies and public investment is also dependent upon the functioning of aspects related to, amongst others, the administrative burden placed on businesses (e.g. time and cost to start up a business, time needed to obtain licences, etc.), the efficiency of public procurement processes, regulatory quality and the intergovernmental relations within a given Member State.

This paper seeks to fill in the existing research gaps in this domain and aims to offer research-based policy lessons. Building upon previous studies, it identifies ‘administrative capacity’ as being a key determinant of SP performance (i.e. timely and legal spending). This concept is here defined as ‘the ability of the units tasked with the management and implementation of EU co-funded interventions to effectively and efficiently operate processes’.

The research team has conducted semi-structured interviews with civil servants involved in the management and implementation of EU Cohesion policy at the regional level in Italy (Sicily - 10 interviews and Puglia -9) and in Poland (Pomorskie - 10 interviews and Malopolska - 10 interviews). Results have been triangulated with interviews conducted with General Managers at the national level (interviews) as well as with representatives of the socio-economic interests in the four case study regions. The systematic analysis of secondary data (Annual Implementation Reports, Evaluation Reports, and Documents) has also been conducted. The main unit of analysis is the regional OP, while the timeframe of interest is the 2007-2013 programming period. However, with a view to gauging change over time, comparisons are being drawn with 2000-06 (2004-06 for Poland) and 2014-20 programme period.

The chapter begins by mapping strengths and weaknesses in the implementation process and the implications of this for the effectiveness and
efficiency of the regional OP. Specific resource endowments which appear to be associated with higher/lower implementation performance are also outlined. Further, it identifies and discusses some of the key explanatory factors that seem to account for differences in administrative capacity in the four regions selected as a case study. Finally, the paper offers evidence to suggest that, while extremely relevant for the effectiveness and efficiency of the regional OP, administrative capacity is not the only explanatory variable capable of accounting for asymmetries in this policy domain. The capacity of sub-regional actors, selected dimensions of national Quality of Government and the availability of financial resources as a result of existing decentralisation arrangements are also key drivers of Regional Operational Programme performance.

STRENGTHS AND WEAKNESSES IN THE IMPLEMENTATION PROCESSES

The empirical results show an extremely variegated picture of administrative capacity levels in the regions selected as a case study. The two Southern Italian regions display different levels of EU resources spending patterns, with Puglia reaching (95% paid/committed) and Sicily (66% paid/committed). Polish regions are relatively less diversified in this matter, with Pomorskie and Malopolskie both reaching 95% paid/committed.

In Sicily, the Managing Authority and the regional departments tasked with the management and implementation of their share of EU resources experience difficulties in effectively and efficiently operating processes. In particular, most respondents agreed that the investment priorities selected do not tend to be in line with the most pressing regional development needs. Further, interventions tend to be fragmented and not sufficiently integrated. Another problematic aspect relates to the capacity of the administration in this stage to include stakeholders in the decision-making process. Representatives of the regional employers’ interests (Confindustria) and of municipalities (ANCI, the National Association of Italian Municipalities) agreed that the lack of effective partnership working has an extremely negative repercussion on subsequent stages of the policy process. An example of this is
the identification of selection criteria in the tendering process which cannot be met by project applicants (i.e. excessively high co-funding rate for SMEs). This delays the regional OP and works as to discourage potential beneficiaries from applying to public calls. Other bottlenecks include an excessive time gap between the publication of invitations to tender and the effective execution of interventions, scarce and fragmented programme marketing activities and failure to promptly detect irregularities from the beneficiaries’ side.

All those interviewed in Puglia, Malopolskie, and Pomorskie emphasised the fact that there is effective partnership working in the Region, with a constant and continuous dialogue between the PA and the stakeholders. This is of paramount importance both in the programming and in subsequent stages. Openness and supportiveness from the administrative side have encouraged active participation of stakeholders and have worked as to avoid potential errors (i.e. presence of an early warning system) and increase their awareness of EU funding opportunities, rules and procedures. Yet, in the two Polish regions, respondents underlined that socio-economic partners still need to increase their awareness of the main rationale behind the regional OP.

In Sicily, there are difficulties in regularly updating the monitoring system as projects progress leading to discrepancies between the financial data present in the regional monitoring system and the actual status of the projects being carried out. This means that expenditure cannot be certified, thereby delaying the pace of the regional OP. In both Southern Italian regions, municipalities have been reported to have a weak capacity to design high-quality projects and to do so in a timely manner. In Polish regions, the strategic and managerial capacity of institutional beneficiaries (municipalities and other public administration bodies) has significantly improved over the years. What is also important - and which further seems to differentiate the Italian and Polish cases - is the presence of an active private consultancy market in Poland. Here beneficiaries to a large extent use the support of external consultants (even up to 80% of implemented projects are supported

8 In particular the Polish respondents underlined that the primary function of Operational Programmes is not to finance all investment needs in both regions. Rather, the aim is to co-fund only those interventions that are in line with the CP strategic targets and according to thematic concentration.
by external managers - this could be helpful for short term goals, but raises serious doubts about long-term institutional development of beneficiaries).

For private beneficiaries, the more business-friendly regional environment in Puglia helps SMEs to bring their projects to completion and incentivizes their participation in EU co-funded interventions. The opposite is true in Sicily where this is combined with the identification of selection criteria in public tenders which have been defined as being ‘unrealistic’ as well as with delays in financial transfers from the Region. The above has resulted in low application rates, withdrawals, and insolvency. In addition both regions have explained that a reason behind delays in the implementation stage is linked to the existing weaknesses in the Italian Public Procurement legislative framework. As pointed out by respondents from the National level, this is a feature that characterizes the whole country, and that concerns all sources of funding. Bottlenecks and delays become particularly pronounced when it comes to planning, programming and implementing public works over a certain threshold. The overly complicated legal framework has been recognized as part of the country’s low performance in the management and implementation of EU funds as it results in recurring errors and irregularities in the course of co-financed procurement procedures. Poor enforcement of convictions further creates incentives to abuse the system. Related to this, review proceedings appear to be slow and not particularly efficient.

Although both Polish regions perform relatively well in terms of the quality of programming and timely spending (fast absorption), the MAs face similar problems with the overregulated implementation system, dynamic changes within national and European legislations, the incoherence of legal interpretations, complicated and difficult to apply public procurement law. Those interviewed are though convinced that to some extent this is inevitable, and the only way organization could deal with such problems is to strengthen the adaptive capacity (via organizational learning and partnership) of the Managing Authority.
WHAT CONSTITUTES ADMINISTRATIVE CAPACITY FOR COHESION POLICY?

In the following section, the most important factors contributing to a higher administrative capacity within the Cohesion Policy domain are presented. Firstly, **the quality of administrative leadership has emerged as being a key variable in this field.** This quality incorporates two dimensions: the first is related to the knowledge of the Cohesion Policy substance and experience in this area (which is paramount in the programming stage). The second dimension encapsulates the style of management, which in the scientific literature is referred to as a “transformational leadership”. In the presence of a complex legal framework and within a dynamic socio-political and economic context, organisations tend to perform better when endowed with an administrative leadership which is able to set clear and understandable objectives, manage personnel in an active way\(^9\) while at the same time being open to feedback from employees. This allows MA staff to improve processes through non-formal practices of incremental organizational change. Such leaders play a fundamental role in building staff empowerment, which is key in self-reflective attitude and to strengthens decision-making processes (especially in the implementation phase).

Secondly, **the availability of skilled, experienced and motivated administrative personnel is another important component of administrative capacity.** This is consistent with results of previous studies (i.e. Horvat, 2005; Boijmans, 2013). Frequent staff turnover, lack of professionalization (i.e. skills) and of meritocracy in appointments, combined with an ineffective HR management system have been described by respondents as the central factors behind inefficiencies in operating processes. Frequent staff reshuffling hampers the sedimentation of competencies while the absence of well-functioning performance-based and rewards systems work as to demotivate staff and fuel a culture of impunity for underperformers. Another important theme which has emerged is that lack of ownership and skills within the administration is associated with a lower propensity towards being open and receptive to beneficiaries’ inputs and

\(^9\) For example, by providing guidance and feedback on expectations and outcomes as far as administrative tasks are concerned.
suggestions. This, in turn, undermines stakeholders’ willingness to participate actively in discussions with the administration. Furthermore, staff reshuffling and delays accumulated in different stages of the policy process are reported to work as to undermine the ability of the administration to learn from evaluations being carried out as well as the time they can dedicate to exchange of best practice and meetings with stakeholders. In Puglia, and both Polish regions - Pomorskie and Malopolskie, investments in human resources - with the recruitment of young and highly skilled personnel - has been identified as a central reason behind increased efficiency in carrying out processes. Towards this end, technical assistance resources have been used to internalise competencies rather than outsourcing tasks to external consultants. This, coupled with administrative continuity, has increased the sense of ownership of processes and the efficiency with which these are carried out. Further, the political sphere has not re-shuffled administrative personnel, and it has reorganised the administrative structures as to increase efficiency in operations.

Thirdly, effective intra-organisational coordination between units in the MAs is essential. The different stages which make up the overall Cohesion Policy cycle are strongly interrelated - decisions made in the programming phase have a direct impact on project selection. This, in turn, influences subsequent implementation stages. Yet, each stage requires a separate set of competencies and administrative processes. This is why the right division of tasks between units in the MA combined with the excellent formal and informal communication rules and routines in the organization plays a vital role. Moreover, there is a clear need for the flexibility of organizational arrangements, which is extremely important to deal with workloads in certain processes (e.g. in some regions staff moves from one unit to another as the policy cycle changes, e.g. in later stages of Programme implementation staff from the units responsible for selection procedures move to work in units dealing with project management. This allows to building up of systemic knowledge on the whole Programme but also helps to manage temporary work overload in certain processes).

Lastly, building on the case study findings, it has emerged that systems and tools (audit, monitoring systems, checklists, etc.) can be useful in improving processes. However their quality and usefulness in a given organization are subject to the presence of factors such as the
organizational culture in place, leadership and staff expertise. For example, in one of the studied regions internal audit is being used not only as a “box-ticking” and document checking exercise; rather, it helps to identify weaknesses in processes and provides insights for organizational change. This was achieved as a result of additional training undertaken by the auditors as well as the presence of an overall open attitude and excellent communication with organization leaders.

HOW CAN VARIATION IN ADMINISTRATIVE CAPACITY BE EXPLAINED?

Administrative capacity is not only the sum of available resources and organizational arrangements within the Managing Authority. It is strongly dependent on other factors. First of those is the type of administrative culture in a member state or region. In studied cases wider Human Resources Management rules are set at the national level, which gives little flexibility in staff motivation for MAs’ leaders. Additionally, the legalistic (procedural-oriented, rather than performance based) culture of the administration creates a dysfunctional system of incentives for the personnel. This, in turn, creates a situation in which individual motivation at the level of managing authority is low.

Another important factor that has an impact on the administrative capacity is the role played by the political sphere or the overall political influence over administrative processes. This influence is multifaceted. A more integrated and coherent approach to programming, for example, is associated with the presence of a political sphere which offers a clear vision for regional development and which abstains from favouring short-term objectives which are not in line with the most pressing regional development needs. Government stability is of key importance in this context. In fact, lack of continuity in the political mandate appears to lowers incumbents’ incentives to adopt a long-term vision for regional development. Thus, regional political stability can directly affect programming performance, in particular with regard to the extent to which investment priorities are in line with the socio-economic needs of the territory.
Political decisions can strengthen or impair the use of available organisational resources. The regional political level has been identified as the main responsible for the suboptimal endowment of administrative resources by those interviewed (i.e. political turnover is accompanied by high administrative turnover, even at the intermediary civil servants level). Moreover, political decisions can also affect the degree to which Technical Assistance funds are used in an effective manner (e.g. funds not being used to fund top-ups and bonuses for civil servants implementing Ops, so as not to diverge their salaries from other administrative staff employed by the regional authorities). This hampers both the efficiency with which tasks are carried out by civil servants (i.e. lack of experience) as well as the building of administrative capacity (i.e. sedimentation of competence) as officers do not stay in their jobs long enough to accumulate experience.

Another factor that has an impact on the administrative capacity is the quality and availability of external services. In four selected regions our respondents told about problems with the low level of expertise of training providers, a limited supply of capable external evaluators and external experts supporting project selection committees. In the Italian cases, cartel behaviour of service providers has been mentioned as a potential threat to the effectiveness of the capacity-building initiatives carried out.

At the same time, CP performance at the regional level can be negatively affected by institutional factors which do not fall under the realm of the regional administrations. Firstly, there are specific Quality of Government sub-dimensions that tend to have an impact on the Operational Programme performance. These include the degree of overall stability and quality of national rules (i.e. public procurement Law and the overall quality of the legal framework - of key importance in specific stages of the implementation process), and judiciary quality (i.e. dispute resolution mechanisms).

Cumbersome and lengthy public procurement procedures can slow down processes and, thus, lead to delays in spending levels. Complexity in the Public Procurement process leads to an increased number of appeals and litigations, which delay processes due to the lengthy and costly judicial proceedings which follow. In the interviews, the Public Procurement aspect has been identified as being one of those context factors which slow down processes or negatively affect their quality (e.g. difficulties in the selection of external evaluators via public procurement law in Poland).
Last but not least, **beneficiaries’ capacity is the key variable in the OP performance.** Municipalities are a key recipient of EU funding and their ability to, amongst others, carry out quality project planning and to do so in a timely manner, feed the monitoring system, co-fund interventions, is of critical importance for the effectiveness and efficiency of the Regional OP. The continuous and constructive dialogue with the administration is considered to be of paramount importance for the quality and coherence of investments. Policies which facilitate access to credit for start-ups and SMEs are of critical importance for enterprises’ capacity to co-fund projects as well as to bring interventions to completion.

**Table 11. Summary of findings**

**WHAT CONSTITUTES ADMINISTRATIVE CAPACITY FOR COHESION POLICY?**

The most important factors emerging from the research:

- the quality of administrative leadership in the Managing Authority;
- the availability of skilled, experienced and motivated administrative personnel;
- effective intra-organisational coordination between units in the Managing Authorities;
- quality and usefulness of the systems and tools in place (audit, monitoring systems, checklists, etc.). These are subject to the organizational culture, leadership, and staff expertise.

**HOW CAN VARIATION IN ADMINISTRATIVE CAPACITY BE EXPLAINED?**

There are certain intervening variables impacting the administrative capacity:

- the type of administrative culture in a member state or region;
- the multifaceted political influence;
- the quality and availability of external services;
- institutional factors (Quality of the national legal framework);
- strategic and operational beneficiaries’ capacity.
The empirical results suggest that administrative capacity is of critical importance for CP performance. However, investments in training, exchange of best practices and other interventions aiming at boosting capacity should be tailored to the specificity of a given territorial context in which they are to be deployed. Addressing knowledge needs and gaps might be helpful in the short term. However, it will not be sustainable in the presence of politicisation of the civil service and might be hampered by frequent staff turnover. In all regions selected as case studies an increase in administrative capacity is accompanied by investments in resource factors, particularly the recruitment of skilled personnel, the retention of experienced and competent staff and the reorganisation of administrative structures, with a view to increasing efficiency. In this context, the availability of Technical Assistance resources has proved invaluable. However, the preliminary findings suggest that presence of a supportive regional political environment is a precondition for the effectiveness and durability of initiatives targeting administrative knowledge needs and gaps.

Administrative capacity-building interventions can go a long way in addressing resource needs and gaps within the administration. However, their effectiveness and durability appear to be conditional upon the presence of specific institutional factors. For example, the presence of an enabling regional political environment has emerged as being a powerful element in this context due to the discretion it exercises over administrative resource endowments.

As hypothesised, besides administrative capacity factors, there are other explanatory variables which interact with the performance of the Regional OP. In the Italian case, despite the differences in administrative capacity levels, both Southern regions have encountered difficulties in the implementation process due to national level specific constraints. These cannot be tackled through administrative capacity-building interventions and should be addressed through systemic reforms. However, as the empirical results presented in this article suggest, it is of paramount importance that existing institutional constraints are acknowledged and factored in when designing initiatives tackling administrative capacity deficits. Indeed, depending on the country-specific institutional context, the effect of
administrative capacity-building initiatives might have a different magnitude and durability.

AUTHORS

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