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Factors hindering the regional development of European Union. An introspection concerning Romania's absorption of EU Structural Funds

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Abstract

The thesis starts from the following questions: *“EU Structural Funds: Why has the absorption rate in Romania been so low?”* Empirical evidence shows that a number of factors determine the capability of a state to manage and implement foreign funds.

This thesis seeks to explore elements of administrative capacity for explaining the low absorption rate of Structural Funds in Romania. Drawing on a conceptual framework, from the administrative capacity literature, it explores three hypothesis that are part of the most important factors influencing the administrative capacity of a member state.

The core of the methodology is an in-depth case study supported by quantitative and qualitative data. I investigate the Sectorial Operational Programme Transport, which have received the most funds in the 2007-2013 period, and I attempt to find evidence of variables that influences the Structural Funds implementation.

I conclude that my assumptions are just a piece of the puzzle that can address the issue of absorption rate, but they exert a lot of pressure on the capability of the administration to manage and implement the Structural Funds with success and efficiency.

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Abbreviations

ANRMAP	National Authority for Regulating and Monitoring Public Procurement
Bn	Billion
CCU (ACIS)	Central Coordinating Unit (Authority for Coordination of Structural Instruments).
CF	Cohesion Funds
CFR	Romanian Railways (Caile Ferate Romane)
CNADNR	National Company of Motorways and National Roads in Romania (Compania Națională de Autostrăzi și Drumuri Naționale din Romania)
CNSC	National Council for Solving Complaints (Romania)
CP	Cohesion Policy
EAFRD	European Agricultural Fund for Rural Development
EAGGF	The European Agriculture Guidance and Guarantee Fund
EC	European Commission
ECU	European Currency Unit
EFF	European Fisheries Fund
EIB	European Investment Bank
EMFF	European Maritime and Fisheries Fund
EP	European Parliament
ERDF	European Regional Development Fund
ESF	The European Social Fund
EU	European Union
€	EUR (currency)
FIFG	Financial Instrument for Fisheries Guidance
GD	Government Decision
GDP	Gross Domestic Product
HR	Human Resources
IB	Implementing Bodies
ICT	Information and communication technology

IMF	International Monetary Fund
I&P	Information and Publicity
KAI	Key Area of Intervention
LIOP	Operational Programme Large Infrastructure
MA	Managing Authority
MCV	Mechanism of Cooperation and Verification
MM	Million
MLG	Multi-Level Governance
MoPF	Ministry of Public Finance
MoT	Ministry of Transport
MS	Member States
NEI	The Netherlands Economic Institute
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of territorial units for statistics
OECD	Organisation for Economic Co-operation and Development
OP DAC	Operational Programme Administrative Capacity Development
OP TA	Operational Programme Technical Assistance
OPs	Operational Programmes
PA	Partnership Agreement
RON	Romanian Lei
ROP	Regional Operational Programme
SI	Structural Instruments
SIGMA	Support for Improvement in Governance and Management
SF	Structural Funds
SMEs	Small and Medium Enterprises
SOP ENV	Sectorial Operational Programme Environment
SOP HRD	Sectorial Operational Programme Human Resources Development
SOP IEC	Sectorial Operational Programme Increase of Economic Competitiveness

SOP T	Sectorial Operational Programme Transport
TA	Technical Assistance
TEN-T	Trans-European Transport Networks
UK	United Kingdom
WB	World Bank

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1. Introduction

In this chapter I will present what is the problem that this project seeks to explore, why is this an interesting problem, and how I will approach the topic.

In 2007, European Union (EU) consisted of 27 member states, each having different levels of development among the 271 regions that had been formed at that date. Therefore, the European Union of the 27 encountered a serious challenge in managing the discrepancies between the economies of the newcomers from the East and the old guard from the West. The new member states (MS) were helped to reduce this economic gaps by receiving more funds from the Cohesion Policy (CP). In order to help the candidate members to create a framework efficient and stable enough for a high absorption rate, EU had to impose pre-accession conditions, especially alignment of the internal legislation with the legislation of the European Union.

As such, the European Cohesion Policy represents the core of the efforts that aim to help all these regions to be competitive, especially the weakest ones.

With the help of the European Regional Development Fund (ERDF) and the European Social Fund (ESF), known as the Structural Funds (SF), and with the Cohesion Fund (CF), this policy has a mission to finance projects in all these regions in order to reduce economic, social and territorial disparities between them. It represents the single largest source of financial support at EU level for investment in growth and jobs, with over €347 billion (Bn) for the 2007-2013 period.

Romania is an EU member with full rights since 2007, and it has been given a great opportunity to try and recover the difference in the regional development that exists between this part of Europe and wealthier states in the west. In order to do this, there was a need for a good coordination between numerous factors that have a role in the absorption of EU funds, which represents one of the main catalyst of regional development.

Romania is dependent on the operational programs from the EU Structural and Cohesion Funds to increase its regional development and to speed up convergence with the average development at EU

level. By implementing the EU SF, Romania increases its economy's attractiveness and ensures a constant development through investments in several sectors, including infrastructure.

However, Romania not only has one of the lowest rate in the attraction of EU Structural Funds, but the funds attracted did not achieve the target of reducing regional disparities. On the contrary, the funds were, at times, used in an improper manner, which led to even bigger regional disparities; especially between the capital city region (Bucuresti-Ilfov) and the rest of the country. Among the reports of the European Commission (EC), which were evaluating the performance of the candidate countries, Romania, in the pre-accession phase has been considered hesitant and with a defective management of the funds (EC, 2008).

My aim in this thesis is to perform an investigation on factors that may have contributed to the low absorption rate and I will focus particularly on the transport infrastructure sector, which is vital for a country's economy.

The thesis range of analysis will focus on the absorption of EU funds related to improving basic transport infrastructure and accessibility, which was and still is a top priority in Romania, as seen in the National Strategic Reference Framework (NSRF) 2007-2013. 28% of total allocation (2007-2013 period) from EU funds was destined to reduce the country's high infrastructure deficit. The poor infrastructure was reflected by the share of SF dedicated to transport, which was one of the biggest among the newly member states.

Transport is fundamental to our economy and society. Mobility is vital for the internal market and for the quality of life of citizens as they enjoy their freedom to travel. Transport enables economic growth and job creation: it must be sustainable in the light of the new challenges Europe faces. Transport is global, so effective action requires strong international cooperation.

Good transport connections are vital for a well-functioning, integrated economic area and for its social and territorial cohesion. A truly integrated Single Market would not be possible without a seamless connection between all its component parts. The Transport Policy has largely contributed to territorial cohesion and to regional development of the Member States that have joined the Union in 2004 and 2007, by improving the accessibility of their regions. The Trans-European Transport Network (TEN-T) policy has constituted the framework to connect transport infrastructure of the "older and newer" MS with each other and, in coordination with EU Regional Policy, on stimulating, preparing and implementing projects

within the newer MS. Thereby, a great deal of progress has been made in the past 10 years to improve transport connections between the West and the East of Europe.

A country report from the Commission comments that Romanian infrastructure remains a key factor that limits the country competitiveness. The investments should stimulate the long-term growth, and the process of reducing the gap from other EU regions, but the poor quality of infrastructure represents an important element that hinders this attempt (EC, 2016).

The thesis is structured in five chapters, starting with this part which aims to introduce the context of my paper and which will continue with the problem formulation and the methodology sections. Next, in chapter two I will present the theory which I will use and chapter three will consist of the empirical data useful for my study. In chapter four I will make use of the empirical data and the theory in order to analyze the issues of Romania, in the scope of finding answers to my inquiry. Last, chapter five will consist of a conclusion that will reflect upon my findings.



1.1 Problem formulation

The absorption of the structural funds is determined by the administrative, institutional and financial capacity of each MS entitled to benefit from EU funding. The performance of each state in attracting and using these funds of structural instruments (SI) can be measured by the absorption rate which indicates the actual flow of money entering in the national economy through projects implemented and financed by the EU.

Romania is the second poorest country in the EU and since its accession in 2007 has constantly been among the lowest ranked states in the absorption of EU SF. Romania suffered from the crisis impact, mostly during 2009-2012, and a good absorption of EU funds would have been a necessary step to increase investments in the development of the country.

The EC has reached the conclusion that mechanisms used by Romania did not help the country to reduce the regional disparities, on contrary, the poorest regions having the greatest difficulties in the absorption of funds (Zaman & Georgescu 2009, p. 142).

Country studies from the accession period showed the poor institutional construction that affected the absorption of EU funds (PHARE, ISPA), and regulations have been imposed so that Romania could be able to attract the funds that would have been made available when becoming an EU member.

Therefore, the main question of this thesis is concerned with the reasons for Romania's inability to attract structural funds:

"EU Structural Funds: Why has the absorption rate in Romania been so low?"

Various studies identified the administrative capacity as a key factor determining the performance of European Union Cohesion Policy. The elements discussed are: the strategies that are developed, the effectiveness of resource allocation and the administration of EU funds (Bachtler & Gorzelak, 2007; Milio, 2007; Horvat, 2005; Smeriglio & Bachtler, 2015).

Before the accession, the EU demanded from candidate countries to reform the economic, political and social structures, especially public administration, but the results have been slow and incomplete (SIGMA, 1998, Demmke et al., 2006). Therefore, most countries, including Romania, have met with poor legal frameworks and administrative structures. The planning and implementation of SF was weakened by lack of skills and frequent institutional change, high turnover of staff, and loose coordination (OECD 2001; Bachtler & McMaster, 2008).

This thesis aims to analyze the role of administrative capacity in explaining the performance of Romania in managing and implementing CP since it became a member, in 2007.

In seeking the answer for the problem formulation, I will base my analysis on three main hypothesis, elements of administrative capacity, which I deem relevant for my investigation:

1. ***The reason for Romania's low absorption rate of structural funds resides in underqualified staff and insufficient recruitment, underpaid staff and fluctuation of personnel.***

Human capacity in Romania has affected the preparation and implementation of projects, and different reports from the Commission expressed the deficiencies that needed to be addressed in this area.

Several studies demonstrated the importance of the human resource (HR) in the management of SF, by making reference to the role of the staff in the capacity of the administrations in the member states.

HR management has been seen as having a central role in capacity building, because it sustains the effectiveness of tasks regarding planning, policy formulation, and implementation of the Government (Cohen in Smeriglio et al. 2015, p. 43).

Smeriglio, Bachtler et al. (2015, p. 16) assert that capacity building is influenced by the “political will and the quality of civil service”. They take into consideration an IMF report that makes reference to the “quality, reliability, motivation and stability of civil servants” which represents a prerequisite of a strong administrative capacity (2015, p. 16).

Also, an OECD (2004, p. 24) study refers to the great impact on administrative capacity building of meritocratic recruitment, competitive salaries, internal promotion and career stability.

Verheijen (2007) studied administrative capacity in Central and Eastern Europe, making reference to the human resource management practices (recruitment, remuneration system, politico-administrative relations) in order to determine one of the elements that influence the performance of the administrations. He used the SIGMA approach for assessing HRM systems and some wage system reviews from the World Bank (Verheijen in Smeriglio et al. 2015, p. 27).

This hypothesis will be used in the analysis to reflect on the major issues that Romanian public administration seem to have when it comes to human resource management and to assess whether this factor contributed to the low absorption of EU structural funds.

2. The reason for Romania’s low absorption rate of structural funds relates to political lack of strategic vision, instability, interferences from the top and widespread corruption.

A study made by McMaster and Bachtler (2005) concluded that the political factor can create delays in the programming process due to incapacity related to strategic development areas, setting key targets and long-term objectives.

Simona Milio (2007) makes a comprehensive study in which she discusses the interaction between the political class and the administrative machinery in order to discover how this affects the performance in the implementation of the Structural Funds. She asserts that the “political factors need to be analysed within the context of the administrative capacity” (Milio 2007, p. 40).

Another important view that is relevant to this hypothesis states that “is rare to see political leaders to structure institutions for increasing its capacities” (Desveaux in Milio, 2007, p. 63).

I will investigate the interaction between the administration and the political factor, by making reference to the three elements that Simona Milio (2007) discusses in her work, namely political interference, government stability and political accountability, to find out how they influence the performance of the management of EU funds.

In this regard, I will discuss the problem of corruption, the political lack of strategic vision, interferences and the political instability in Romania, from the perspective of their contribution to the low absorption rate.

3. ***Romania's low absorption rate of structural funds is due to bad institutional design, unclear competences and legislative barriers.***

Romania struggled in the pre-accession period with the institutional reforms required by the EU and has been close to miss the chance to become a member with full rights in 2007 because of the lack of reforms and fight against corruption.

As Dimitrova (2002, p. 180) states, no EU treaty exists with regard to the design of the public administration of the member states. The lack of administrative criteria in the *acquis* means that Romania was free to organize its own structures and legislative framework. In spite of that, the general principles of CP should be respected, namely, partnership, programming, concentration and additionality.

Horvat (2005, p. 6) talks about the importance of the delimitations between the management and control systems of operational programmes and puts an emphasis on the member state's government which has the role to decide the institutions that will deal with management, implementation, financial execution and control of SF. In his study, he asserts that "the importance of absorption problems depends mostly on institutional factors" (2005, p. 9).

In conclusion, Romania had the power to designate the institutional system and to regulate it according to the national legal system in order to manage the EU funds.

My aim is to investigate on the contribution of the country's institutional structure to the low absorption rate, from the perspective of three specific elements, namely: institutional design, division of competences and legal framework.

1.2 Delimitations

In the modern public management literature and regional development studies, authors like Bachtler & Gorzelak (2007), Edervee et al. (2006), Horvat (2005), Bachtler, Mendez and Orazo (2013), Milio (2007) have been preoccupied with the capacity of administrations to reach the level of efficiency and effectiveness and the solution implemented for this scope.

There are various researchers who tried to find the factors that contribute to the absorption rate of a country, but since I only had limited space and time for writing this thesis I chose to focus only on the administrative capacity, which is often promoted as an important element that influence the absorption rate, to the point to which is even confused with the absorption capacity. My research will analyze only one country, namely Romania, and put an emphasis on one of the most important sectors, the infrastructure sector. First, I tried to identify the factors that influenced the absorption rate of EU funds, and then, to analyze some of them that seemed most relevant for my case and my hypothesis. For the same reasons I chose to not analyze the flaws of the EU mechanism that might influence the absorption rate of EU funds in Romania.

I will start by reviewing the regional policy in EU and how Romania decided to elaborate the strategy for accessing the EU funds related to the infrastructure sector. Then, I will present the evolution from the 2007-2017, for the first programming period and half of the second period of Structural Funds, in relation to the factors that have an influence on the processes of management and implementation of projects.

After that, I will base my analysis on the elements which I consider that influence the absorption rate, based on statistics, reports, and second source interviews.

My paper will focus on the analysis of factors determining the low absorption rate of structural funds in Romania. Therefore, I consider that such an analysis can have a practical applicability for the improvement of the current weaknesses of the Romanian system.

1.3 Methods

In this chapter I will present the manner in which I will conduct my research, detailing the chosen methods and the sources used for the empirical section.

The thesis takes the form of a case study to explore the research theme which is the low absorption rate. Even though there are many types of structure in relation to a research project, my choice is the single case design structure, which can permit a more detailed analysis. The research focuses on Romania as a case study to examine the factors which hinders the absorption rate of Structural Funds, since the country became a European Union member.

Usually, case studies are seen as qualitative research methods, which is considered by different authors a poor approach of the relation between research design and methods. On the other side, David de Vaus cites Yin, which is an authority in this area, and claims that “the case study method does not imply any particular form of data collection – which can be qualitative or quantitative” (Yin as quoted by David de Vaus, 2001, pp. 10-11). As I will explain in the following paragraphs, I will use both qualitative and quantitative data to analyze my case study since I find it more helpful in reaching a more in-depth analysis.

A disadvantage of the case study is that it can be misleading because of the “researcher’s own subjective feelings that may influence the case study with both the collection of data and the interpretation of them” (Searle in Hayes 2000, p. 133).

Because of other studies that elaborated on the absorption capacity of Romania, I believe that my thesis can at least help future research, if the theory used proves to be inapplicable.

According to David de Vaus (2001, pp. 1-3), in the research design it is possible to use a “descriptive research” (what?) or an “explanatory research” (why?). My thesis will try to pursue the explanatory research, as stated in the problem formulation. In order to do this, I have to find causal explanations for my question. I assess my three hypothesis as being the causal explanations and I will try to test them in relation to administrative capacity, to see if they have a relation with the low absorption of EU funds. I chose this concept because of various academic studies and Commission reports that put an emphasis on the role of the administrative capacity, a role that increased over the years as we can see in the thematic

objectives of the 2014-2020 Cohesion Policy, where the efficiency of public administration has a definite place.

The relation between theory and research reflects the nature of the study, namely “theory testing” (deductive approach, use theory to guide the study) and “theory building” (inductive approach, constructs theory based on observations) (David de Vaus 2001, pp. 3-4).

I will use the deductive approach, with my presentation of the administrative capacity concept in the theory section, from which I will try to understand and explain if it had a role in the absorption of EU funds in Romania. I don’t aim to construct a theory, but to test it, and find if it has an explanation for my problem.

For a good overview of the research question, I used the documentary method to gather data from various documents and academic literature which will be used to test the hypothesis presented earlier in the chapter.

As for the type of data, I will use qualitative data in the form of political declarations, relevant articles, EU official reports, evaluation studies and other documents, academic literature, as well as quantitative data in the form of statistics.

For the empirical data I have chosen to use mainly official sources, such as the EU website, Eurostat, different national official websites, to ensure data’s reliability. The data gathered from these sources will be complemented with information from different relevant articles. Altogether, they will provide a solid basis for my analysis, by constituting sufficient and dependable information. The analysis regarding the Sectorial Operational Programme Transport (SOP T) will be based on data provided by the Ministry of Public Finance (MoPF). Data is also extracted from official databases of the European Commission – Cohesion Policy: Indicative Financial Allocations (European Commission 2007) and the annual evaluation reports and national programming documents.

The use of different range of sources aims to create an image as complete as possible and as accurate as possible. Apart from the reliability of the information, which is gathered mainly from official sources, the internal validity of my paper will be ensuring during the data collection process, as well as during the writing process and in my analysis; while the external reliability will be given by the fact that the results of this paper can be transferable to other member states as well, with certain limitations.

The empirical data in my thesis will be gathered, not generated. The main reason for this choice is the time and space limit of this project. Ideally, relevant actors involved in the EU structural funds absorption

in Romania would have been interviewed and access to more documentation would have been necessary to generate data. Unfortunately, these actors are usually unavailable, especially on a short-term notice and such primary documentation is missing.

2 Theory section

2.1 Choice of theory

My thesis pursues a public administration approach to the analysis of cohesion policy, with a direction towards the domestic factors that can explain the problem stated in the introductory chapter. A suitable theoretical framework for answering the research question and verifying the hypothesis proved to be the approach of administrative capacity.

The reason for this choice, resides in the fact that the hypotheses assumes that the key to identifying the low absorption rate in Romania is related to the elements of administrative capacity.

There are also a number of theories related to regional policy that can prove to be good indicators of the functioning of the cohesion policy management and I will make a short presentation of a couple of them.

Radaelli (2000) sees Europeanization as “a process of construction, diffusion and institutionalization of formal and informal rules, procedures, policy, paradigms, styles, ways of doing things and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, identities, political structures and public policies”.

Europeanization is used in a number of ways in the academic literature in relation to structures and mechanism of EU. It has been used in post-communist states from Central and Eastern Europe to determine domestic reforms. The theory doesn't put accent on member states, or on supranational institutions, but on the interaction between the two of them and the adaption of the former to structures and norms of the European institutions (Wong 2008, p. 322).

Multi-level governance (MLG) is considered an outcome of the process of Europeanization, not necessary a theory and is an indicator of the cohesion policy management system, by its nature of determining the multi-level nature of the administration system and mechanisms. Gary Marks has been the first to address the multilayered decision-making process of regional and structural policy, after the reform in 1988. It reflects the decentralization process that have been taking place in some countries. EU has been a model for countries, to involve multiple actors in the governance system for improving competitiveness of the regional economy and the well-being of residents. MLG allows a certain degree of flexibility but it implies higher costs of coordinating multiple jurisdictions (Hooghe & Marks 2003, p. 239).

In my view, these two approaches are more relevant if pursuing an analysis of the level of integration of the Romanian system or level of harmonization with the EU level. However, my aim here is to investigate

on potential factors rendering a low absorption rate of the structural funds, not on the implications that this low rate has. Therefore, I assess that administrative capacity is a more suitable approach for my thesis.

2.2 Concept of absorption

In order to understand and discover the elements that influenced the absorption of EU funds in Romania, I will make a short introduction to the concept of absorption capacity and factors that influence it.

The literature regarding the absorption of EU funds is not very mature and studies for a better absorption of funds are in their early stages. This is not because of a lack of interest, but rather due to difficulties in assessing the impact of structural funds on the convergence of EU countries. Usually, absorption capacity is seen as the ability of a member state to spend the financial resources allocated from the Structural Funds.

In the academic literature, the institutional factor is considered to be the most important when referring to problems of absorption, at EU level, transparency of funds allocating process and bureaucratic administration being the main elements, and at national level, the structure of the economy, the administrative capacity, the political system and the economic policies (Georgescu 2008, p. 2).

Horvath (2004) makes reference to the institutional building in the pre-accession period, and points to the “golden rule” which represents a better absorption with less institutions involved.

Šumpíková et al. (2003) asserts that “absorption is a new condition in the allocation of European Funds”, representing the ability of a state to attract and invest all the financial resources from the EU in an efficient manner. The Cohesion Policy aim is to reduce the development gaps in the EU regions, therefore, the absorption capacity of the state is represented by the competence to maximize the funds received in order to achieve this strategic objective (Vitek 1999, p. 387).

The Commission states in various Reports that candidate countries don’t have the capacity to use the resources from EU wisely. In the pre-accession period each candidate country had to prepare, by designing implementation policies and changing the legislative framework to receive structural assistance. After becoming a member, the absorption capacity was related to the absorption rate of EU funds. Horvat & Maier (2004, pp. 4-5) talk about a “deficiency of absorption capacity”, when a member state can’t make use of all the funds that it can attract.

Šumpíková et al. (2003, p. 2) discussed absorption capacity and introduced two major factors that influence the rate of absorption of EU SF. On the beneficiaries’ side:

1. Administrative capacity, which is related to the capacity of projects applicants and beneficiaries to formulate and implement good projects, as well as to ensure their adequate management.
2. Financial capacity, or their ability to co-finance the projects.

On the other hand, on the “supply side”, similar factors have been presented, with the administrative capacity still being a major one:

1. Macroeconomic absorption capacity, translated into the share of EU funding in the state’s GDP.

2. Financial absorption capacity, meaning the capacity of the state to co-finance the programmes.
3. Administrative capacity, consisting of the ability of the state to formulate proper programmes and to manage the entire programming period, to ensure the coordination between the main actors, to assure the financial support for implementation.

2.3 Introduction in the concept of administrative capacity – definitions and implications

Since the initial stages of development cooperation in 1950s, there have been studies focused on strengthening administrative capacity. But the effort in defining it intensified later in the 1990s, with the works of Cohen (1995), Grindle (1997), Hilderbrand and Grindle (1997), and Tendler (1997). Furthermore, there is a wide body of literature on administrative capacity in the context of EU enlargement (Addison, 2009).

First of all, let's see some of the most important definitions and characteristics of administrative capacity, as scholars used to describe and measure it:

Honadle (1981) sees the administrative capacity as “the capacity to expect and plan changes, make decisions and policies, develop programs for implementation of policies, attract and use resources, manage resources and value the activities for future planning” (Honadle in Rožen 2013, p. 392).

Skowronek (1982) sees administrative capacities as “three dimensions that bound a state's model of operations, namely organizational structure, the procedural routines that tie institutions together and the intellectual talents of the staff”(Skowronek in Addison 2009, p. 10).

According to Duncombe (1998), there are “micro and macro factors that influence the administrative capacity, such as: political, legal, economic and organizational” (Duncombe et al. 1998, p. 175).

Administrative capacity is a complex term, with a contextual understanding. A general definition of administrative capacity was given by Janicke (2002), who asserts it as being the operative form in which governments can plan and implement programs with an enhanced performance and their ability to address operational difficulties.

Stefan Wegener et al. (2011) made the distinction between three dimensions of the conceptual approach to administrative capacity, namely:

- Policy dimension;
- People dimension; and
- Systems dimension.

Specifically, these three dimensions encompass several aspects, as detailed below:

Policy dimension	People dimension	Systems dimension
<ul style="list-style-type: none"> - Planning of decision-making & implementation process - Coordination of the actors concerned - Performance management systems 	<ul style="list-style-type: none"> - Human resources legal framework - HR relations - HR development 	<ul style="list-style-type: none"> - Employment of ICT - Consolidated statistics - Availability of technical and material resources

In their work ‘Administrative Capacity-Building and the EU Cohesion Policy’, Smeriglio, Bachtler et al. (2015) draw attention to a conceptual overlap between administrative capacity and absorption capacity that occurred in previous studies which treated the issue of SF spending. Furthermore, they propose a view of Administrative Capacity in the EU context.

In their perception, the administrative capacity became highly relevant to the EU, mainly due to three factors, namely: the rapid enlargements of the EU, the emphasis of administrative capacity’s suitability as accession requirement; and the concerns on the administrative capacities of the Candidate Countries of Central and Eastern Europe.

A wave of studies of administrative capacity coincided with the 2004 EU enlargement and led to the overlapping of conceptual approach of administrative and absorption capacity, as pointed out above. After this ‘wave’, studies that followed focused on the identification of challenges faced by the new MS in implementing Structural and Cohesion funds. Some of the studies made also a comparative analysis between the national and regional approach to development; pointing out that a centralized management approach can have a negative impact on a smooth implementation of the program and implicitly on the absorption rate (Stimson et al. 2011).

In his work ‘Administrative Capacity of Local Government: Political Dimensions’, Tomaž Rožen (2013) asserts that administrative capacity is used to research the capacity of local governments, and particularly the manner in which they are able to address challenges. Furthermore, he claims that in order to enable the capacity of local governments, decentralization must be done properly, with the transfer of prerogatives for decision-making, as well as due financial resources. He then, classifies the factors that influence the quality of administrative capacity in four categories, namely: political, economic, administrative-organizational and social.

He cites Farazmand (2004) stating that “administrative capacity is in narrower meaning defined as a combination of qualified, capable and motivated human and other resources on all levels of governing” and continues with the remark that “besides operative decision making and coping with present problems/issues it contains also strategic decision making for the future” (Farazmand in Rožen 2013, p. 389).

A weak capacity level hinders good management and the implementation of Operational Programmes (OPs), affecting therefore regional development. However, still remain considerable methodological challenges to theorizing and measuring administrative capacity, while clarifying its impact on Cohesion policy performance. (Dotti 2016, p. 179).

Developing on prior studies, Dotti defines administrative capacity as “the ability of the units tasked with the management and implementation of EU co-funded interventions to effectively and efficiently operate processes”. However, this definition is not meant to reduce administrative capacity to the sum of accessible resources and organizational structure. The administrative capacity is also contingent to other factors, such as: the form of administrative culture, the political influence, the quality and accessibility of external services, other institutional factors independent of the regional administrations; and the beneficiaries’ capacity (Dotti 2016).

Last, but not least, the European Commission explains the administrative capacity as the capacity to “define the tasks and responsibilities of all the bodies and institutions involved in the “preparation and implementation” and ensure “effective inter-ministerial coordination”.

As we can see, there are several definitions of ‘administrative capacity’, which is a complex concept. For this thesis, I will work with the definition of administrative capacity related to the absorption of EU Structural Funds; and I find the definition of the European Commission very relevant. However, different definitions add additional aspects to administrative capacity, which should not be disregarded.

2.4 Use of Theory

After making a review of the many definitions and indicators of administrative capacity, in the next paragraphs I will present the evolution of the assessment of administrative capacity and how I intend to analyze the Romanian administrative capacity.

The Administrative capacity of an EU member state is an important factor influencing the absorption rate of SF.

Smeriglio et al. speak about the evolution of the capacity-building over the years, from 50’s and 60’s where the accent was put on the design of the public institutions that should deal with the investments progress. The development of administrative capacity in the public sector had shifted the focus from establishing the organization and developing tools for strengthening it, to human resource growth and delivery of good policies, and in the 80’s and 90’s to include the private sector and different internal and external organizations in the preparation of sustainable projects. Political and bureaucratic accountability had become points of reference over the years (Smeriglio et al. 2015, p. 19).

In the EU context, the administrative capacity has been discussed first in 1995, at the Madrid European Council and in the “White Paper on the Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union”. Candidate countries have been advised to develop their administration so that they have a coordinated legislative framework. This was the first time where administrative capacity was considered to be of importance, but the White Paper made reference to sectoral administrative requirements. This proves that, in the beginning European Commission was more interested in building adequate institutions in the candidate countries. Afterwards, as we will see, there has been an increased interest in developing effective administrations.

Also, Bachtler et al. talk about studies from World Bank stating that corruption must be reduced by “simplifying procedures and regulations”, and that the horizontal administrative capacities are more

important than sector specific administrative capacities by “a shift towards the quality of decision-making and administrative law, internal and external accountability system, and the remuneration and recruitment of the civil service” (Bachtler et al. 2015, p. 16).

As Bachtler and Gorzelak (2007) put it, weak institutional capacity in the new MS affects the design and implementation of strategies that would increase the absorption and efficiency of SF. They enumerate some of the concerns in this area: “lack of a strategic approach to economic development, inadequate coordination of institutions and policies; corruption and lack of accountability; poor financial audit and control; insufficient separation between politics and administration in payment decisions; high staff turnover; lack of specialist skills and equipment and frequent institutional change” (Bachtler & Gorzelak 2007, p. 320). These concerns are strongly linked to the hypotheses that I will test; and this contributed to the decision of choosing particularly those hypotheses, as they affect the administrative capacity. In the empirical section of this thesis, I presented the problems related to the overlapping competences between institutions that deal with EU funds, political interferences that interrupt the good administration of funds and the management of the staff involved in the EU funds field.

The definition of standards for horizontal administrative capacities came along with the Commission Progress Report (1999), when there have been established six areas that can assess it. The factors analyzed are: policy-making and coordination; civil service; public expenditure management systems; public procurement; internal financial control; external audit. (OECD, 1999) These elements ensure an effective functioning of administrative capacities according to EU’s political-administrative system, in the member states, and are a response to the lack of specificity in horizontal administrative capacity assessment. I decided to look after only three out of this six areas, because of the lack of time and space.

Therefore, the area related to policy-making and coordination I correlated it with the second hypothesis where I talk about the general strategic vision of Romanian authorities, which aren’t able to think and act on a long-term basis generating confusion and mismanagement of the funds. The political will to support one project or another, or the always changing direction of the decisions taken at the highest level, made Romania to lose almost €1 bn for the infrastructure sector.

The civil service area I attributed to the HR management hypothesis, because it’s in close connection to the situation from the Romanian administration, where no human resources policy for administrative entities have been designed and implemented. There haven’t been any clear assessment of the workload in the various institutions that have a role in the policy cycle of funds. HR management is not debated enough in regulations to force states to adopt clear directions, therefore influencing the ability and capacity of each administration. The most pressing issues are related to the quantity and quality of staff, because one of the main key objective is to attract highly educated people, with background in relevant fields (Aucoin & Bakvis in Smeriglio et al. 2015, p. 44). I shall present what are the issues of the Romanian system and what have been the approaches used.

The 1999 Reports used a system for the analysis of horizontal administrative capacities developed by the SIGMA programme, which was funded mainly by the EU PHARE programme, at the request of the European Commission. It was a tool of the European Commission to promote capacity development in public administration in Central and Eastern Europe. In Table 1 presented below, there are outlined the baseline issues for horizontal administrative capacity assessment, as identified in the Commission Progress Report (Smeriglio et al. 2015, p. 19). As stated above, I will present their relation with administrative capacity in Romania, but only to half of them.

Table 1. Baseline issues for horizontal administrative capacity assessment. Source OECD (1999)

Assessment element	Baseline issues
Policy-Making and Co-ordination	Coherence of the policy-making framework
	Inter-ministerial consultation mechanisms
	Agenda Planning
	Dispute resolution mechanisms
	Central co-ordination capacity
	General strategic capacity
	Co-ordination of EU affairs
	Involvement of the Council of Ministers in budget decisions
	Impact assessment
Civil Service	Legal status of civil servants
	Legality, responsibility and accountability of public servants
	Impartiality and integrity of public servants
	Efficiency in management of public servants and in control of staffing
	Professionalism and stability of public servants
	Development of civil service capacities in the area of European Integration
Public Expenditure Management Systems	Inclusion of sound budgeting principles in the Constitution, Organic
	Budget Law and/or related laws
	Balance between executive and legislative power
	Exact definition of the scope of the State Budget and efficient arrangements for transfers to extra-budgetary funds
	Medium term expenditure framework
	A logical, sequential and transparent Budget process, set out in clearly defined rules
	Effective arrangements for the Budget management of Public Investments
	Effective monitoring mechanisms for budget implementation
	Common classification for accounting and reporting, compatible with concepts related to the disbursement of EU funds
	Capacities for upgrading the Public Expenditure Management system
Public Procurement	Inclusion of a defined set of principles in public procurement legislation
	Clear legal basis and adequate capacities for the central procurement organization
	Effective mechanisms of procurement implementation and training
	Presence of control and complaints review procedures
	Capacity for upgrading the Public Procurement system

Internal Financial Control	A coherent and comprehensive statutory base defining the systems, principles and functioning of financial control
	Presence of management control systems and procedures
	Presence of a functionally independent internal audit/inspectorate mechanism
	Presence of systems to prevent and take actions against irregularities and to enable recovery of damages
	Capacity to upgrade financial control systems
External Audit	Statutory authority for the SAI to audit all public and statutory funds and resources, including EU funds
	Meeting requirements set out in INTOSAI auditing standards
	Necessary operational and functional independence
	Reporting: regularity, fairness, timeliness, proper counterpart in the parliament
	Awareness of EU accession process requirements
	Capacity to upgrade quality of external audit.

For the civil service, the same Report that I talked about earlier, points to standards that must be met: “the separation between the public and private sphere and between politics and administrations, individual accountability of civil servants (well-educated and skillful public managers); sufficient job protection (stability, level of pay) and clearly defined rights; recruitment and promotion based on merit” (Bachtler et al. 2015, p. 20). Clearly, this side of administrative capacity theory is linked to my first hypothesis and it provides a good basis for testing it by looking at the Romanian current status compared with the standard set in the theory.

According to Smeriglio et al., among the main factors influencing the administrative capacity in the context of cohesion policy are: the quality of administrative management, the availability and quality of human resources, a good intra-institutional coordination on the Management Authorities (MAs), as well as availability of needed tools and systems (Smeriglio et al. 2016, pp. 184-187).

The Netherlands Economic Institute (NEI) have developed for the European Commission a set of benchmarks and baseline indicators to measure administrative capacity.

The main elements of administrative capacity are as follows (Smeriglio et al. 2015, p. 24):

- Structures: clear division of tasks and responsibilities to institutions (including programming, implementation, management, evaluation and monitoring, financial management and control)
- Human resources: detailed job descriptions, estimated staff recruitment needs, adequate human resource management
- Systems and tools: availability of instruments to support and enhance effectiveness (guidelines, manuals, procedures, methods, etc.)

For the analysis of administrative capacity I will also use the following table below, which will be correlated with the explanations in this subchapter because of their connection with the three core elements

highlighted above. Similar approaches for the three elements that influence the administrative capacity were revealed by Bachtler et al. (2015), European Commission and the Parliament of EU through the SIGMA guidelines, etc. As we will see in the analysis chapter, they have an influence on the functioning of administrative capacity and the absorption rate of EU funds.

Administrative capacity	Specific indicators	Assessment of administrative capacity			
		Consolidated/strong (A)	Developing (B)	Basic (C)	Absent/rudimentary (D)
(1) Organizational structures	Allocation of competencies and responsibilities	Clear allocation of competencies and effective operation	Clear, formalized allocation of competencies and responsibilities but operational weaknesses	Partially formalized allocation of competencies and responsibilities. Significant operational weaknesses	Unclear or largely informal allocation of competencies and responsibilities. Major operational weaknesses
	Coordination/cooperation among ministries and implementing bodies	Strong, open intra-department communication, with good use of formal and informal channels and periodic review	Good intra-departmental communication but limited openness. Use of formal and informal channels	Modes of intra-departmental communication. Emerging formal channels for dialogue and decision-making	Poor intra-departmental communication. Lack of formal and informal channels for coordination
	Organizational stability	Stable structures and responsibilities throughout the programme period	Largely stable structures. Minor internal reorganization	Some instability, with episodic reallocation among ministries or implementing bodies	Unstable structures with frequent/substantial reorganization of responsibilities among ministries or implementing bodies
(2) Human resources	Availability of suitably qualified staff	Sufficiently qualified and experienced staff available. Low turnover	Staff available with some constraints in qualification, experience or turnover	Staff available, but major constraints in qualification or experience, or turnover	Severe lack of sufficient and qualified staff
	Human resource management	Well-developed HR management system. Effective performance assessment and staff development	Developed HR management system. Operational weaknesses in performance assessment and staff development	HR management system with limited performance assessment and staff development functions	No HR management system
(3) Administrative adaptability	Establishment and adaptability of procedures and tools	Flexible mechanisms for on-going adaptation and use of staff experience	Some mechanisms for adaptation, partly using staff experience	Cumbersome, inflexible mechanisms for adaptation	No mechanisms for adaptation established

Table 2. Administrative capacity assessment. Source: Bachtler et al. (2013)

The organizational structure will test the capabilities of the deciding actors to allocate competencies and responsibilities, the level of coordination/cooperation among ministries and implementing bodies, and the organizational stability.

The administrative adaptability or as described above the “systems and tools” represents the instruments and procedures that must be available and adapted for reaching effectiveness in the funds absorption.

The human resources will be analyzed through the availability of suitably qualified staff and the degree of management involved.

Pursuing this concept from its 3 core elements perspective (structures, human resources and systems/tools) will give a direction towards a better analysis of the administrative capacities in relation to the EU structural funds absorption that will be done in the next chapter: the institutions involved in the process and the relationship between them (how they influence each other); the procedures that have an impact on the system; and the capabilities of the staff.

2.5 Political interference

The other element that I will use in the analysis chapter, which influences the administrative capacity of a state is the political factor. Next, I will present the scholars view with an emphasis on Simona Milio findings.

Capacity has been seen as a feature of a changing political system, one that responds to the demands of different actors at regional and international level, and to the changes that occur over time in the development of politics as Almond (1965), Diamant (1971) and Eisenstadt (1963) put it in their works. Carpenter relates capacity to the “the collective talent of bureaucracies to perform with competence and without corruption and malfeasance.” (Carpenter 2001, p.74) In the analysis chapter, we will see if and how the political actors from local and central level managed to come up with strategies and reforms in order to strengthen the administrative capacity of Romania to absorb EU funds and what have been the effects of it.

The impact of political arrangements on the administrative capacity has been highlighted by several authors, among which Batchler & McMaster (2008), Milio (2008), Rodriguez-Pose & Garcilazo (2015), Neculai-Cristian Surubaru (2016). Additionally, a poor performance of administrative capacity can be determined also by a poor institutional setting, which is usually the case in post-communist countries, where institutional reforms were not properly implemented (Verheijen 2009, p. 41).

The high impact of the administrative capacity on the absorption rate of EU Structural Funds is also due to the complexity of the administration, as there are several actors involved in the implementation of these funds. Therefore, the ability of each one of the actors involved has an effect on the overall implementation process; but also the quality and functioning of the system itself has to be in a proper manner.

Milio (2007) distinguishes three important aspects under the political factor, namely: political interference, political stability and political accountability. The latter has a major role to play particularly in the case of SF, as this Funds implies a longer term planning and a strategic selection of projects to

finance. As such, to ensure a good administrative capacity, politicians should show accountability for the strategic policies and the governance priorities (Milio 2007, pp. 44-67).

She asserts that administrative capacity can be influenced by the behaviour of the individuals that have certain roles in key institutions. It connects with my hypothesis since Romania is a centralist state and many decisions are influenced from the top.

When talking about the political interference, Milio states that there has to be a “clear distinction between administrative responsibilities and the political arena of power” (Milio 2007, p. 65). It is important for the administrative sphere to have some sort of independence and as little influence as possible from the political factor. The reforms that politicians are sustaining regarding civil service are important from the perspective of timeframe and efficiency. If the political factor delays the reforms and interferes with the responsibilities of the managers in the public administration, they will hamper the process of project implementation. This angle has been used in the analysis chapter to see if political management in the Romanian administration affects the work of EU funds administration.

Government stability is another issue that Milio is talking about. She assesses that one or two cabinets during a five-year legislature represents a stable situation. The stability of a government inspires credibility for the administration, and “creates the glue that unites civil servants in their pursuit of a common goal”. (Milio 2007, p. 66) When governments are changing, they affect the people in key positions of the administrative system that are appointed on a political basis. Because of the multi-annual programme of the SF, changes can occur when political instability arises, which affects the implementation of the programmes. The necessity of having a stable government is given by the need for monitoring and evaluation of the implementation process, because it takes several years to bear the fruits of a programme. This makes a one-year government to dedicate its activities to other matters because it doesn't have enough time for improving the programme for the future (Milio 2007). Political stability was seen in the light of the number of governmental changes in Romania over the last 10 years, as well as the effect that it had on the capacity of institutions.

The third measure presented by Milio (2007), is the political accountability, which is reflected by explanations given for the actions and decisions that have been made at the political level. She refers to accountability as the power to deviate from the usual responsibilities and take action in favor of a political agenda that isn't necessary respecting the long-term interests. Because the political life may be a short one, the political class can decide to support projects which are not the best choice for the regional development but are fulfilling other interests. In this regard, the political class that is not accountable may interfere with the information that the public receives in order to mislead them, and use the funds for their own personal gain. Therefore, the monitoring and evaluation systems are crucial for the efficient use of the funds.

Another widely discussed factor affecting the administrative capacity is corruption. This can have an impact on the financial decisions, governmental expenditure structure, HR structure and so on. However, the degree of corruption is difficult to measure; and to a certain extent relies on the public perception (Milio, pp. 71-73). Romania has been under an intense scrutiny over the years with the MCV put in place by the EU, and several reforms, especially in the public procurement law have been taken to address the shortcomings that affect the process of managing and implementing EU funds. In the analysis chapter I will discuss the implications that this angle has on the administrative capacity and see if it affects the absorption rate.

3 Empirical research – Regional Policy

3.1 EU Regional Policy - History

Establishment

Although the Cohesion Policy has been established legally, in the Single European Act, in 1986, it was first mentioned in 1957 in the Treaty of Rome when the founding fathers declared their aim of “reducing the differences existing between the various regions and the backwardness of the less favoured regions”. Even in the Article 2 was specified that the Community was tasked with promoting a “harmonious development of economic activities” and “a continuous and balanced expansion”.

At the beginning of the 1970’s, regional policy was officially in the Commission’s agenda and the EU’s regional policy was launched in 1975 with the establishment of the ERDF.

The ERDF was established with the purpose of reducing regional disparities, which at the time were caused mainly by the prevalence of agricultural and the industrial advancement. Initially, this fund was directed towards the MS that had contributions to the EC budget exceeding the average; and only towards areas decided by the Member State (Wallace 2010, p. 231).

As shown by David Allen (2010), the basis for establishing the regional policy’s instruments was two-fold, but inter-connected: on one hand, to limit the major role of the common agricultural policy and on the other hand to support also the United Kingdom (UK), which would be able to use the ERDF, as this country was one of the main contributors to the EC budget (Allen in Wallace 2010, p. 231). As such, in this early stage, the funds were allocated at national level, rather than targeting specifically the least favored regions.

The reform of 1988

The beginning of the Community’s enlargement generated greater regional disparities, leading the Commission to reform the system’s financial structure. Thus, “Delors I Package” was ‘born’. This package contained the Commission’s proposal for a set of rules aimed at ensuring the financing of the Community budget and at improving the budgetary procedures. This Communication from the Commission was issued in the spirit of achieving the objectives of the Single European Act; and foresaw the establishment of a financial outlook and priorities on multiannual basis. Following this Communication, the first five-year financial perspective was set for the period 1988 – 1992, at the European Council of 1988 (Inforregio 2008, p.8).

This reform brought a set of criteria for identifying problematic regions, the nature of the assistance, as well as guidelines and reporting requirements (Bachtler & Turok, 2013).

Furthermore, it formulated several principles for the regional policy’s implementation, which constituted the basis for the regional policy (Inforregio 2008, p.10):

- *“Concentration on a limited number of objectives with the focus on the least developed regions;*

- *Multi-annual programming based on analysis, strategic planning and evaluation;*
- *Additionality ensuring that member states do not substitute national EU expenditure;*
- *Partnership in the design and implementation of programmes involving national, sub-national and EU actors, including the social partners and non-government organisations, ensuring ownership and transparency of the interventions.”*

Also, in 1988, the Council agreed to put existing EU funds into the context of “economic and social cohesion”, a term introduced two years earlier by the Single European Act.

The reform was not limited to structural changes, but it also involved a considerable increase of the Structural Funds’ budget. If in 1987, the SF was 6.3 Bn ECU, in 1993, it reached 14.1 Bn ECU.

The creation of the CP generated a budgetary shift translated into the usage of the three SF in order to develop and finance regional projects on a more autonomous and experimental basis: The European Social Fund, the European Agriculture Guidance and Guarantee Fund (EAGGF) and the European Regional Development Fund.

The positive impact of this reform led to a further Communication from the Commission, in 1992, named Delors II Package. Through it, the inter-institutional agreement was re-validated and the financial perspectives were issued for a period of seven years: from 1993 to 1999.

The reform of 1993

The Maastricht Treaty, signed in 1992, established as one the Community’s pillars the economic and social cohesion, therefore enhancing the importance of the regional policy.

As an effect of the Maastricht Treaty, in 1993, were established the **Cohesion Fund**, the **Committee of the Regions** and the principle of **subsidiarity** (the decisions shall be made at decentralized level, to enhance its impact).

The budget allocation increased again, from 43.8 Bn ECU (European Currency Unit) during 1988 – 1993, to more than 141 Bn ECU for the period 1994 – 1999.

Further to the three existing Funds, a new one was created, namely the Financial Instrument for Fisheries Guidance (FIFG), which was substituted by the European Fisheries Fund (EFF) in 2017, later reformed into the European Maritime and Fisheries Fund (EMFF) in 2014.

Over the years, the Treaties of Maastricht (1992), Amsterdam (1997) and Nice (2002) reiterated the importance of the regional policy. And in 2006, the Lisbon Treaty even enhanced it through the introduction of the territorial dimension. This treaty has supported and strengthened the objectives of Cohesion Policy with issues such as globalization, demographic changes, sustainable energy, climate changes and security threats at EU level.

These reforms made an impact by increasing the institutional power of the EU, improving the decision-making process for greater regional competitiveness.

The repeated enlargements that followed triggered the need to new reforms of the regional policy. And it has been essential to improve the strategic coherence of the regional policy. This was translated through

fostering the cooperation between EU and regional authorities and strengthening the connection between the cohesion and the national reform programs (DG IPOL 2011).

The Strategy of 2010

In 2010 was launched the Europe 2020 strategy, focused on ensuring a sustainable growth during this period.

Specifically, for the 2014 – 2020 timeframe, the new priorities are:

- *“Stronger focus on results: clearer and measurable targets for better accountability.*
- *Simplification: one set of rules for five Funds.*
- *Conditions: introduction of specific preconditions before funds can be channeled.*
- *Strengthened urban dimension and fight for social inclusion: a minimum amount of ERDF earmarked for integrated projects in cities and of ESF to support marginalized communities.*
- *Link to economic reform: the Commission may suspend funding for a Member State which does not comply with EU economic rules” (European Commission)¹.*

¹ http://ec.europa.eu/regional_policy/en/policy/how/priorities

Summarizing this section, I enclose below a timeline of the EU Cohesion Policy.



3.1.1 Objectives

Starting out as an instrument aimed at reducing regional inequalities, through the provision of differentiated assistance to targeted EU regions; the Structural Funds became key in pursuing the achievement of the Lisbon Agenda's targets in terms of growth and competitiveness of the EU economy (Allen in Wallace, 2010, p. 232).

With each period there have been established objectives regarding economic, social and territorial cohesion in order to strengthen the single market and reform the Community. There have not been major

changes in these objectives, in regards to the main focus of regional policy, which is growth and employment, adding over time an important dimension: sustainability.

The evolution of the Structural Funds objectives is summarized below:

Period	Objectives
1988 – 1999	<p><i>Objective 1</i> – targeted regions with GDP per capita under 75% reported to the EU average. Exceptionally, the Council was allowed to add other regions</p> <p><i>Objective 2</i> – the regions were decided by the EC and the Council; and they were selected among the ones with higher unemployment than EU average</p> <p><i>Objective 3</i> – focused on reducing long-term unemployment</p> <p><i>Objective 4</i> – targeted the adjustment of workforce to the industrial progress</p> <p><i>Objective 5</i> – was two-fold. On one hand provided support to agricultural and forestry; on the other hand supported progress in rural areas.</p> <p><i>Objective 6</i> – was dedicated to the Nordic regions</p>
2000 – 2006	<p><i>Objective 1</i> - targeted regions with GDP per capita under 75% reported to the EU average, but under more rigorous eligibility rules</p> <p><i>Objective 2</i> – concerned with support related to industrial challenges, fisheries, rural areas seriously affected and underprivileged urban regions</p> <p><i>Objective 3</i> – targeted the regions not eligible under the other objectives</p>
2007 – 2013	<p><i>Convergence Objective</i> – focused on intensively reducing regional disparities through the provision of support for job creation and growth in regions where the GDP per capita falls under 75% related to the EU average</p> <p><i>Regional Competitiveness and Employment Objective</i> - covers the regions not eligible under the first objective, having as target the regions' development in terms of competitiveness and employment</p> <p>European Territorial Cooperation – encourages cross-border cooperation and regional cooperation, being based on <u>Interreg</u>² initiative.</p>
2014 - 2020	<p><i>11 thematic objectives</i> (European Commission, 2014):</p> <ol style="list-style-type: none"> 1. “Strengthening research, technological development and innovation. 2. Enhancing access to, and use and quality of, information and communication technologies. 3. Enhancing the competitiveness of Small and Medium Enterprises (SMEs). 4. Supporting the shift towards a low-carbon economy. 5. Promoting climate change adaption, risk prevention and management. 6. Preserving and promoting resource efficiency. 7. Promoting sustainable transport and improving network infrastructure. 8. Promoting sustainable and quality employment and supporting <u>labour mobility</u>. 9. Promoting social inclusion, combating poverty and discrimination. 10. Investing in education, training and lifelong learning. 11. Improving the efficiency of public administration”

Table 3. Evolution of Structural Funds, 1988 – 2020. Own drawing

Given the fact that the focus of this project is the period from 2007 to 2017, further in my thesis I will focus only the objectives for this timeframe.

The EU regional policy is also known as Cohesion policy, due to its main purpose of reducing regional disparities across the EU, and therefore promote a more balanced development. It addresses the different levels of development, ranging from economic and social, to territorial cohesion. Specifically, the cohesion policy offers support to under-developed regions, in terms of strengthening their local economy, enhancing the regional economic climate, enhancing competitiveness, as well as promoting interregional cooperation and connectivity.

3.1.2 Funding

The regional policy of the EU is financed through a series of instruments which together constitute the European structural and investment funds. Specifically, there are as follows:

- The Structural Funds (the European Regional Development Fund - ERDF and the European Social Fund - ESF)
- The Cohesion Fund
- The European Agricultural Fund for Rural Development
- The European Maritime and Fisheries Fund.

Below, I shall present a summary of the funds, along with important guidelines.

European Regional Development Fund (ERDF)	Created in 1975, the ERDF targets the regional level and supports SMEs, infrastructure, management and technical assistance.
European Social Fund (ESF)	Created in 1958, ESF is concerned preponderantly with training activities, targeting social inclusion and reduction of unemployment. This fund, as well, targets regional level.
Cohesion Fund (CF)	Dating from 1994, CF is allocated at national level. The <u>eligible</u> sectors are infrastructure and environment and the beneficiary countries are the Member States with a GDP per capita under 90% of the EU average.
European Agricultural Fund for Rural Development (EAFRD)	Initially named European Agricultural Guidance and Guarantee Fun – Guidance (EAGGF – Guidance) when it was established in 1962, the EAFRD (2007) targets the regional level and supports rural development.
Financial Instruments for Fisheries <u>Guidance</u> (FIFG)	Started in 1999, FIFG targets as well the regional level; and supports initiatives related to fishery.

Table 4. An overview of the Structural funds, financial instruments (Allen in Wallace 2010)

The eligibility criteria for allocating the funds is the prerogative of the European Commission; and the funding gets allocated proportionally to the level of underdevelopment of each region; meaning that the least developed regions are preferred. Another factor taken into account while deciding the allocation of funds is also the relevance and importance of the regional objective.

The following figures shows the regions’ eligibility for the Structural funds for the periods 2007-2013 and 2014-2020 and the respective objectives of EU regional policy.

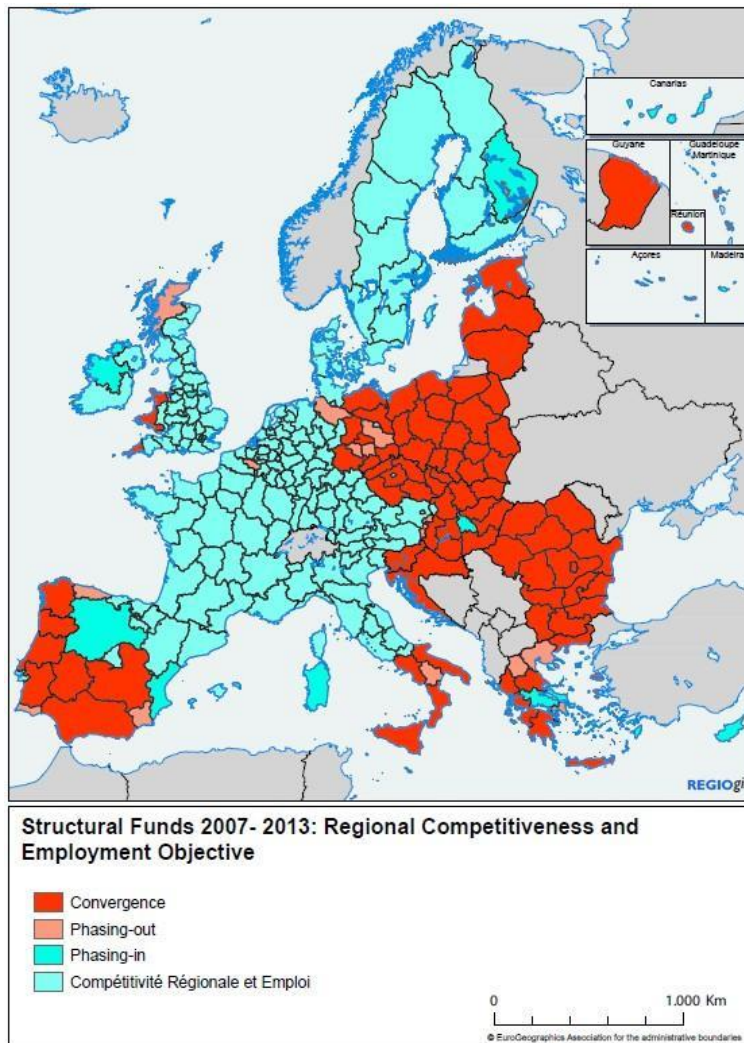


Figure 1. Eligible areas in the EU under the Convergence Objective and the European Competitiveness and Employment Objective. Source: European Commission

Convergence Objective: growth and job creation, provides phasing-out funds for states and regions that would have remained eligible if the thresholds had remained at 90% and 75% of GDP/capita of the EU15 average but were no longer eligible for the same thresholds with the EU25 average.

Competitiveness and Employment Objective: Funding for all regions not covered by the Convergence Objective and whose GDP/capita now exceeds 75% of the EU15 average.

European Territorial Cooperation: cross-border and trans-national cooperation for NUTS3 regions.

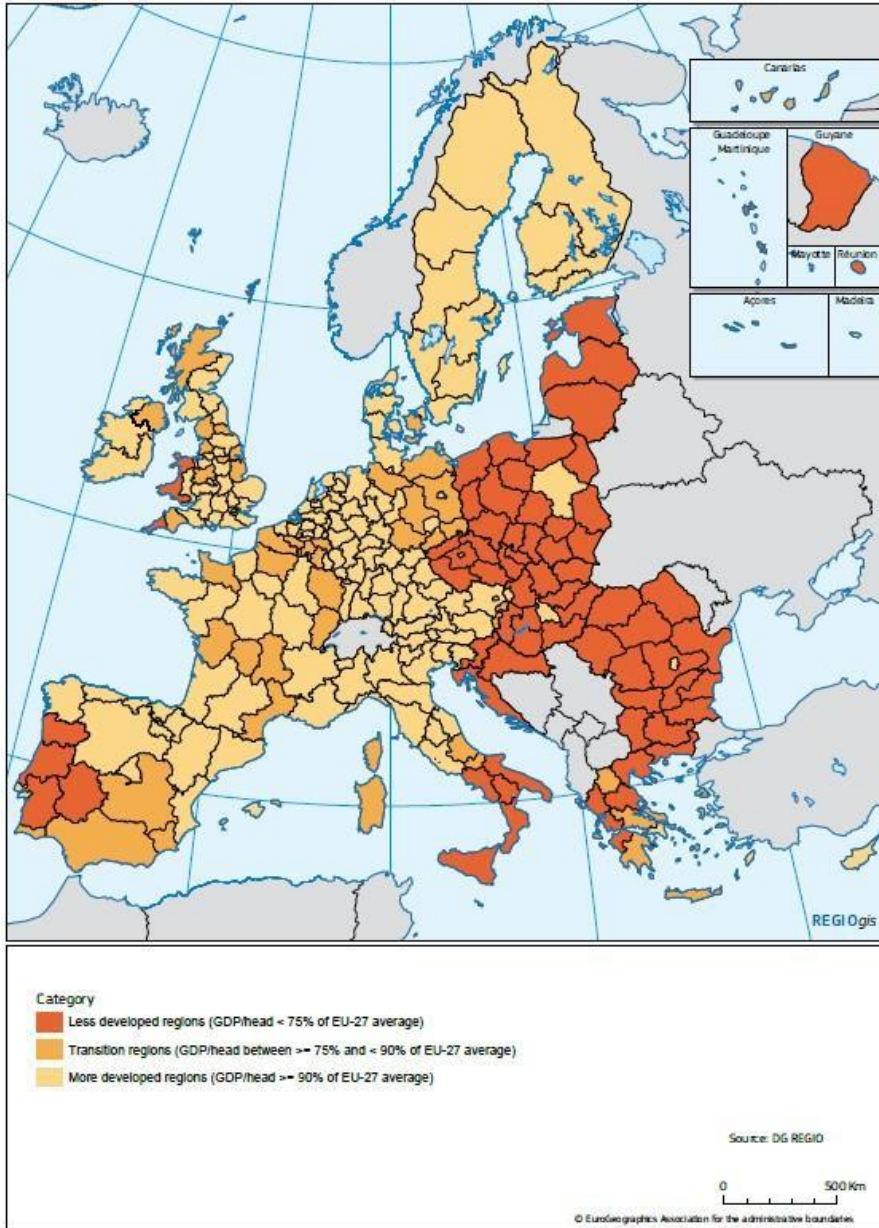


Figure 2. Categories of regions for the ERDF, ESF, EAFRD 2014-2020 Source: European Commission

Convergence Regions (less developed regions): GDP/capita <75% of EU 27 average

Transition Regions: GDP/capita 75-90% of EU-27 average

Competitiveness Regions (more developed regions): GDP/capita >= 90% of EU-27 average

The allocation of funds in EURO (EUR) is presented in the graphic below.

Budget allocations per Member State (2014-2020)

Total EU allocations of cohesion policy 2014-2020 (billion €, current prices)

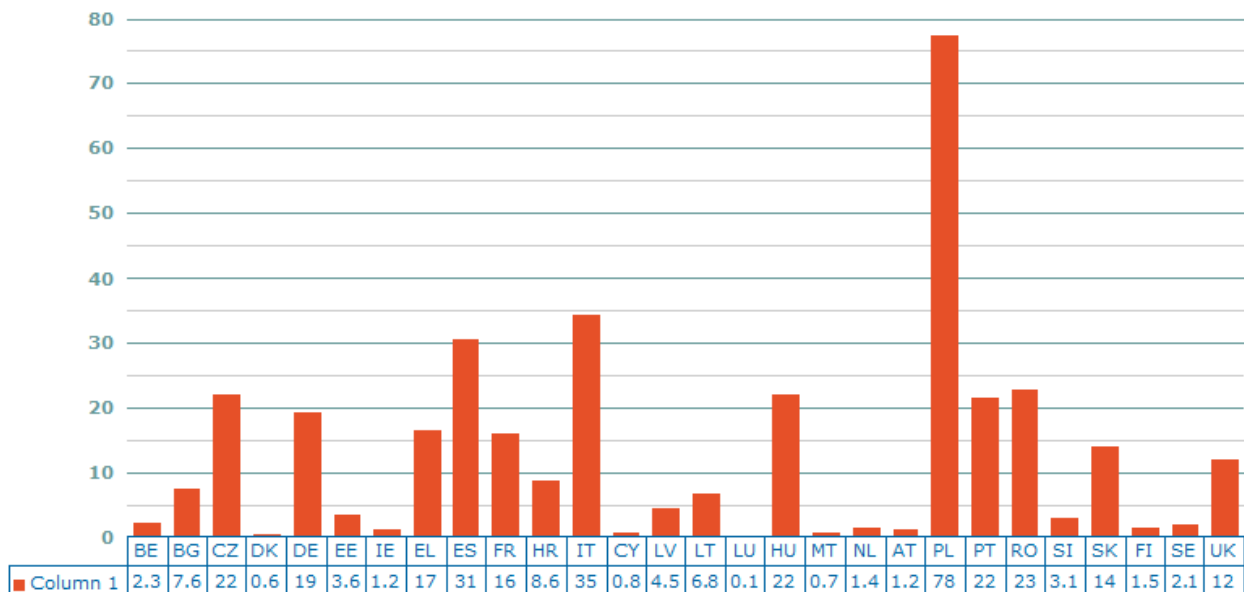


Figure 3. Total EU allocations of Cohesion Policy 2014-2020 (billion €), by member state

Romania still remains on top, after Poland and Italy, even though it had great difficulties to absorb the EU funds, the need for the development of the regions to recover the deficit being one of the main cause.

3.1.3 Organizational framework/Funds regulations

The EU regional policy is carried out by national and regional bodies in partnership with the European Commission.

It is up to the European Parliament (EP) and the Council of EU to establish the tasks, objectives and the organization of the SF through the ordinary legislative procedure and consulting the Economic and Social Committee and the Committee of the Regions.

The investment process has three stages, which are presented below:

- First, the EC issues a proposal regarding the budget allocated and the rules for expenditure eligibility. Based on this proposal, the Parliament and the EU Council of Ministers make a joint decision
- Further, the EC supports the Member States in their definition of partnership agreements, which establish the needs for development and the priorities for investment. At this point, the MS have to present to the EC an operational program (OPs), detailing the objectives and the afferent actions. These OPs are elaborated either at regional or national level; or even at multi-countries

level. The content is negotiated with the Commission, leading to a final version. There are several actors involved in this process, since consultations shall be held with all levels of governance concerned with the programming and management of operational programmes, including the civil society.

- Last, the programmes are implemented by the corresponding actors, under the umbrella of the managing authorities of each country or region (European Commission 2014, p. 9).

The management and delivery of the programmes is therefore largely devoted to administrations at national and sub-national (regional and local) levels. EU countries must assure the Commission that the funds are being spent effectively and in accordance with EU law. They must provide reliable accounting, monitoring and financial reporting system and identify the responsible bodies and procedures to ensure an adequate audit trail.

An audit authority must be designated for each OP. This authority provides the Commission with an audit strategy and an annual audit opinion and annual control report, taking into account issues identified during audits carried out during the previous 12 months.

The selection and financing of individual projects falls under the attribution of the relevant national and/or regional authorities, without the involvement of the EC. The Commission restricts itself only to the approval of the programmes and funding towards these national or regional authorities (European Commission 2014, p. 9).

On a yearly basis, the EU member states and the EU institutions check on the economic progress and countries receive targeted, individual recommendations in regards to economic reforms needed. At the same time, the European Commission can request a MS to revise its program, in order to align it to the investment plan or to address key structural reforms. In the eventuality in which the MS does not comply in a repetitive manner, the EU can decide the suspension of funding towards that state (European Commission 2014, p. 11).

3.2 Presentation of Romania's Case

3.2.1 Regional policy in Romania – brief history

Romania is one of the least developed member states of the EU28. At regional level there are significant disparities, mostly between the capital city region, Bucuresti-Ilfov, where GDP per capita was more than double the national average between 2007 and 2014. The regions with the lowest levels of GDP per capita, the North-East, South-East, and South-West, faced difficulties because of large-scale migration over the 7 years period, only the Bucuresti-Ilfov had benefited from an increased population.

3.2.2 2007-2013 Funding Period

Since 2007, Romania had the chance to benefit from the Community funds under the Cohesion Policy and it had been allocated €19.213 Bn under the Convergence Objective (Structural Funds and Cohesion Funds) and €455 MM under the European Territorial Cooperation Objective.

The principles and priorities of the Cohesion Policy are set out in the *Community Strategic Guidelines on Cohesion (2007-2013)*. Each Member State has committed to respect them and adhere to the Cohesion Policy through their *National Strategic Framework* for 2007-2013. The NSRF 2007-2013 in Romania presents the national priorities for the given period and includes the strategy for using the Structural and Cohesion Funds. The Funds are being attracted through Operational Programmes.

As for the priorities of the NSRF Framework that had been set up in this period in Romania, I can enumerate:

- Develop basic infrastructure in line with EU standards;
- Increase the long-term competitiveness of the Romanian economy;
- Develop human capital and use it more efficiently;
- Build effective administrative capacity;
- Promote balanced territorial development.

These priorities were implemented through seven OPs managed at the national level:

1. Regional Operational Programme (ROP);
2. Sectorial Operational Programme Environment (SOP ENV);
3. Sectorial Operational Programme Transport (SOP T);
4. Sectorial Operational Programme Human Resources Development (SOP HRD);
5. Sectorial Operational Programme Increase of Economic Competitiveness (SOP IEC);
6. Operational Programme Administrative Capacity Development (OP DAC);
7. Operational Programme Technical Assistance (OP TA).

In Romania, the main regional development projects and programs have been funded through the structural instruments, the ERDF, the ESF and the CF. Table 5 shows the contribution of the Structural and Cohesion Funds in achieving the objectives of the cohesion policy through implementation of the 2007-2013 Operational Programs at national level.

OP	Fund Type	Total	2007	2008	2009	2010	2011	2012	2013
ROP	ERDF	3,726,021,762	330,168,339	404,126,047	441,135,485	523,721,833	556,767,943	663,832,914	806,269,201
SOP ENV	ERDF/CF	4,512,470,138	272,372,736	437,302,592	578,507,217	683,350,731	761,146,030	848,813,721	930,977,111
SOP T	ERDF/CF	4,565,937,295	251,957,363	441,348,842	614,332,066	729,632,669	785,525,000	841,697,425	901,443,930
SOP IEC	ERDF	2,554,222,109	170,464,211	194,837,789	364,964,902	485,640,935	507,263,253	435,815,005	395,236,014
SOP HRD	ESF	3,476,144,996	212,973,834	330,141,809	452,584,803	538,429,514	595,593,519	666,545,305	679,876,212
OP DAC	ESF	208,002,622	20,162,952	28,143,236	40,850,990	41,668,010	29,865,828	24,604,847	22,706,759
OPTA	ERDF	170,237,790	16,979,328	18,401,347	20,977,535	24,775,573	27,568,456	30,463,144	31,072,407
	Total	19,213,036,712	1,275,078,763	1,854,301,662	2,513,352,998	3,027,219,265	3,263,730,029	3,511,772,361	3,767,581,634

Table 5. The contribution of the Structural and Cohesion Funds in achieving the objectives of the cohesion policy (annual allocations in EUR) Source: KPMG (2010)

Support from the ERDF and CF amounted to €15.4 Bn and programmes were largely focused on three policy areas, Transport, the Environment and Enterprise Support, which together accounted for more than 80% of total resources. In particular, Transport received over a third of the total funding available (of which around 60% were allocated for roads projects), the Environment - 29%, and Enterprise support - 17%.

The total of funds received through ERDF and CF added up to €15.4 Bn, which translates into approximately €102 per capita, per year. This represents the lowest level of funding per capita among the EU12 countries. This amount represented under 2% of the GDP and 25% of government capital expenditure (WP1 Synthesis Report 2016, p. 11).

In the EU Cohesion Program it has been decided that the money allocation will follow the N+3 rule for the 2007-2010 period, after which the N+2 rule will be enforced. This means that Romania was able to spend the money allocated for year 2007 until 2010, the ones from 2008 until 2011, and so forth up until 2010 budget, which should have been spent until 2013. After the year 2010, the N+2 rule would take effect. If the allocated money has not been spent until the designated end of period, they will be lost.

The SOP T focused on investments of national significance, mainly the modernisation of road and rail on TEN-T corridors. Overall transport spending in Romania was dominated by road infrastructure with €17.6 Bn of the total €22 Bn, compared with €2 Bn on rail and €2.4 Bn on other modes. The initial allocation of funds in the operational programmes was heavily weighted towards road projects, and funds were reallocated from rail to road during the programming period (KPMG & AECOM 2016, p. 38).

SOP T was divided into four priority axis, which include major areas of intervention for which it can apply for financing:

- Priority Axis 1 – Modernization and development of TEN-T in order to develop a sustainable transport system and integrating it with the transport networks within EU;
- Priority Axis 2 – Modernization and development of national transport infrastructure outside the TEN-T in order to create a sustainable national transport system;
- Priority Axis 3 – Modernization of transport sector in order to increase environmental protection and public health and passengers safety;

➤ Priority Axis 4 – Technical Assistance for SOP T.

At the end of 2013, Romania had spent an amount of €17.6 Bn on roads, being translated into approximately 80% of the total expenditure for transport infrastructure. As such, the allocation from the CP, which amounted €3.4 Bn represented approximately 19% of the overall expenditure.

Most of the expenditure has been directed towards the reconstruction of existing roads (1.437 km), while 162 km of new roads were constructed during 2007 – 2010. Out of these, 140 km were new TEN-T roads (AECOM & KPMG 2016, p. 39).

Additional funds, apart from the CP, were directed to Romania’s transport infrastructure through the ROP. Specifically, €1.1 Bn were directed towards regional and local roads; and €112 MM towards urban roads (AECOM & KPMG 2016, p. 39).

In regards to the rail investments, Romania used a total of €2 Bn in this period, of which €1.7 Bn was allocated from the CP. As such, the rail expenditure represented 9% of the total transport infrastructure of Romania between 2004 – 2013; and the contribution from the CP meant 85% of the total expenditure.

Even though “investments” have taken a lot from the state budget and EU funds over the years, the infrastructure sector has a slow progress.

The problem, as the Vice President of the National Union of Road Transporters states, is that, in the last years, there have been thousands of “investments” projects, all taking money from the budget, instead of two – three big infrastructure projects, that can lead to a greater impact. He says that the city halls can take money for any kind of “investments”, and they spend it on projects that doesn’t generate long-term value.²

Another issue, the most important, was that Romania didn’t have a national transport strategy at the beginning of the period, relying only on meeting the EC Directive 96/53 and TEN-T projects. A study evaluating the 2007-2013 period asserts that there haven’t been used indicators and analysis in creating plans and strategies for financing the infrastructure sector. Also, much of the funding was used for the maintenance of road, rail and waterways infrastructure, and not enough for building new sectors that would bring further investments in the country (AECOM & KPMG 2016, p. 45).

The lack of a strategic vision can be supported by the above statements, and I will investigate in my analysis whether this approach is substantiated.

Furthermore, the Country Report from EC states that Romania face difficulties regarding project selection and prioritization of mechanisms. Because projects worth more than RON 30 MM need the approval of Government, there have been a lot of them that didn’t receive the financing necessary for implementation although they have been signed (EC 2016, pp. 43-44).

² <http://www.zf.ro/eveniment/romania-ca-paradox-raportat-la-pib-are-cele-mai-mari-cheltuieli-de-investitii-din-ue-dar-cea-mai-slaba-infrastructura-16252099>

3.2.3 2014-2020 Funding Period

For the period 2014-2020, in order to reach a modern and competitive economy and strengthen the regional and urban development, Romania identified in the Partnership Agreement (PA) with the European Commission five challenges to be tackled (European Commission 2014, p. 2):

- *“People and society, through improved employment, social inclusion and education policies, contributing to reach the national EU2020 targets – increase the employment rate to 70%, reduce the number of people at risk of poverty with 580.000 by 2020, reduce the early school leavers down to 11.3% and increase the tertiary education participation to 26.7%;*
- *Infrastructure, especially in transport, through improved accessibility of the less developed regions in Romania and connectivity with the international market, a more sustainable transport mix, improved traffic safety and travel time and a more sustainable urban transport;*
- *Economic competitiveness, through a more compact and modern R&D environment focused on businesses’ needs and Romania’s competitive sectors, and transformations of the traditional sectors through innovation and market development, targeting the increase of the GDP to be invested in R&D with 1.5% by 2020;*
- *Resources, through the shift towards a low-carbon economy, including energy efficiency in the built-environment, promoting climate change adaption, risk prevention and resource efficiency and protecting the environment, contributing to the national EU 2020 targets: reduce the green house emission and energy intensity with 19% and increase the share of renewable energy to 24%;*
- *Administration and government, through optimizing the institutional environment and improving the quality of public services by the administration and the judiciary.”*

Because Romania has problems with medium and long-term strategic planning on infrastructure development, an ex-ante conditionality has been set, a master plan for 2014-2030 period. This General Transport Master Plan provides for a series of prioritized investments for further expanding the road network to reduce the infrastructure deficit during the 2014 – 2020 period (AECOM & KPMG 2016, p. 38).

In regards to the rail sector expenditure, most of the funding came from the EU through the Cohesion Policy, amounting approximately 85% of the total expenditure; while when it comes to road infrastructure, the EU contribution through CP was 19%. These allocations have been established while having a General Transport Master Plan (2015) which foresees the need to major reforms and investment in the rail sector (AECOM & KPMG 2016, p. 38).

Stakeholders recognized the importance of CP funding in delivering major road investment projects, whilst the length of rehabilitated county roads funded through the ROP has exceeded the target. Road safety remains however a major problem in Romania and the length of motorway network within Romania is still well below the European average, based on population density.

Unfortunately, for the programming period 2014-2020, the MS confronted with a setback in the approval of the OPs, because of a delay of the EU structures in preparing the CP legislative package. As such, the

OPs ended up being approved in January 2015, after two years of negotiations between the EP and the Council (European Parliament 2014, pp. 19-20).

During the 2014-2020 period, Romania has to manage six operational programmes under EU Cohesion Policy: four programmes funded by the ERDF and the Cohesion Fund, and two programmes funded by the ESF including the Youth Employment Initiative.

In the field of operational programmes allocation, there is a total of six OPs, after OP Environment and OP Transport had been joined together in a single operational programme, named Operational Programme Large Infrastructure (LIOP). The other 5 programmes follow the same priority fields, for their development, like those existing in the last period.

Support from the ERDF, CF and ESF amounts to €23 Bn, divided between the six OPs as we can see in table below.

No.	Operational Programmes Financed	EU Financial Allocation (MM €)	Amounts transferred by EC (pre-financing) (MM €)
1.	Operational Programme Human Resource	4.326,84	152.61
2.	Operational Programme Competitivity	1.329,78	37.45
3.	Operational Programme Large Infrastructure	9.418,53	265.51
4.	Operational Programme Technical Assistance	212,76	6.38
5.	Operational Programme Regional Development	6.700,00	188.70
6.	Operational Programme Administrative Capacity	553,19	15.60

Table 6. Financial allocations for Structural and Cohesion Funds in Romania, 2014-2020. Source: www.fonduri-ue.ro

The allocation of funds for roads in adopted programmes for 2014-2020 is €4 Bn, compared to €3.4 Bn in 2007-2013. This represents, however, a decline in the share accounted for by roads in the overall transport allocation from 62% to 51%. The equivalent amount for rail was €1.5 Bn, compared to €1.7 Bn in 2007-2013.

3.2.4 Institutional framework in Romania

There are many factors that influence the absorption of EU funds because of the complexity of the entire process that leads to it. In order to understand the different actors that play a role in this process and how they influence it, we must first know who they are, and get acquainted with the framework in which they act.

After the OPs have been approved by the EC, the member states have to establish several types of authorities, each with its own role in order to establish the institutional framework.

The Authority for the Coordination of Structural Instruments (ACIS – within the Ministry of Public Finance) is responsible for coordinating the SF at national level, and for the legal basis of the framework in which institutions will act.

Article 59 from the Council Regulation (Council Regulation (EC) No 1083/2006 of 11 July 2006, p. 30) states that for each operational programme the Member State shall designate:

- a managing authority (national, regional or local) to manage it;
- a certifying authority (national, regional or local) to certify statement of expenditure and applications for payment;
- an audit authority (national, regional or local) for verifying the effective functioning of the management and control system.

An institutional convergence is needed to be able to absorb EU funds and ensure good governance at all levels (Popa 2010, p. 267). Romania designed the institutional framework by respecting the principle of division of functions and aiming for mechanisms and procedures which foster an efficient and rigorous use of funds. The main objective was to coordinate, implement and administer the SI according to EU's requirements (Susanu 2008, p. 4).

For SOP T, the Managing Authority is the “General Directorate Large Infrastructure Programme” that is part of the Minister of European Funds according to Government Ordinance no. 85/2004. Therefore, the decisions on the personnel and financial allocations are taken by this structure.

An important aspect regarding the institutional framework is the cooperation between the programming department and the other departments in the institutions, for an efficient programming in line with the existing implementation and monitoring regulations (Constantin 2006, p. 10).

In 2011, because of the overall low rate of absorption, a new Ministry has been established, The Ministry of European Funds. It had the objective of helping all the MAs to increase their influence within the Ministries in order to attract more funds.

A study conducted by the ACIS (Ministry of Public Finance) showed the institutional weaknesses of the authorities dealing with SOP T, among which I can enumerate: “the lack of clarity on the respective roles of Ministry of Transport (MoT) and its subordinated companies, which negatively affects the continuity of guidance” (MoPF 2011, p. 9). This affected the timetables for implementation and deadlines.

Each OP has manuals presenting the steps through which a project will undergo the terms, criteria and deadlines that both the applicants and the MAs have to comply with. Figure 4 below, presents the procedure for the projects selection.

First, the beneficiaries have to submit their project and request for financing. Then, it is evaluated administratively, according to the rules, based on a pass/fail criteria. Thirdly, the project have to be evaluated from an “eligibility criteria” viewpoint, but this time additional information can be requested from the applicants, maximum 3 times. Evaluation has to last 10 working days, or more in case of other clarification.

Another step in this process is represented by the technical and financial evaluation where a committee of three internal and/or external experts have to evaluate the project sustainability, quality, maturity, institutional capacity, etc. Experts have to visit the place where the project will be implemented to check

if everything is as stated in the documents, and, if needed ask for more clarifications allowed for maximum two times. In order for the project to pass, it has to receive a minimum number of points. This part should take no more than 35 working days, except when clarifications are necessary.

Based on the points, there will be made a ranking of the projects and they will be selected in descending order, if the call for applications has a time limit. Otherwise, each project that reached this point will receive the funds, on the first-come, first-served basis, until the end of the entire sum allocated. A pre-contracting phase is set in place, where a set of documents that attests the existence of authorizations are needed. The last step is the signing of the contract.

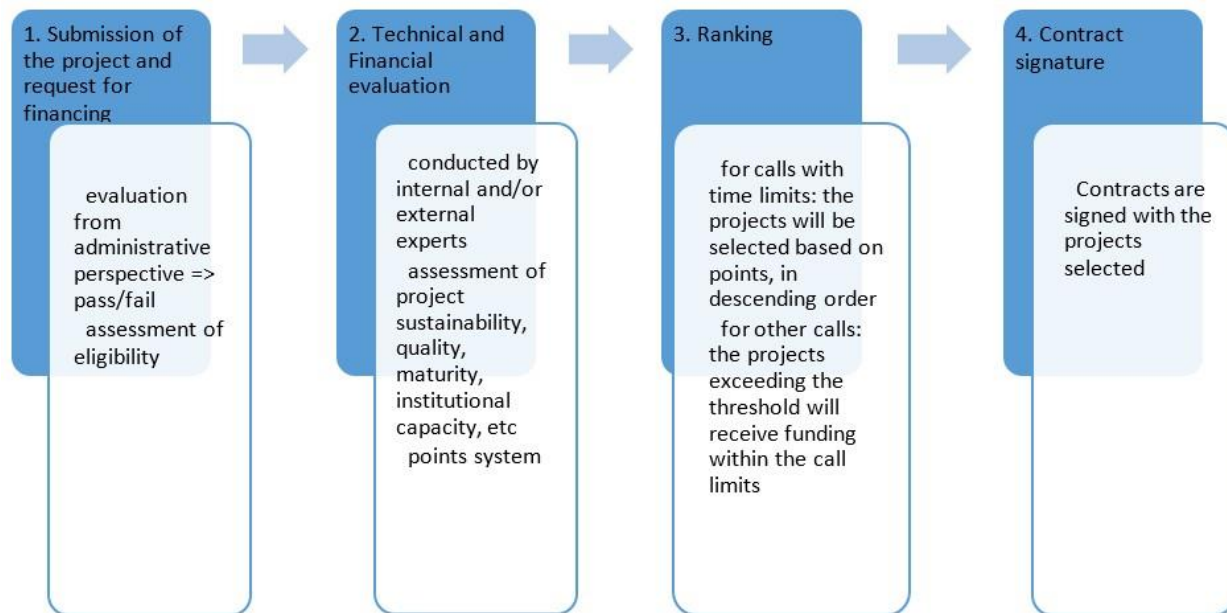


Figure 4. Procedure for projects selection. Own drawing

The payment authority has to check that all the clauses from the contracts are respected, and that everything is done in compliance with the legislation. The EC will receive the request and send the money to the payment authority.

In order to have a clear vision of the process, it is important to keep in mind that the absorption rate, even though is probably the most important, is the last figure to take into account. The first steps of the process represents the measurement of the number and value of the projects that applied for funding, how many of these have been evaluated, approved and rejected, and how many have been contracted and paid. All these steps have a major influence on the absorption rate, so that is why it's best to start with them.

According to a study conducted by KPMG and co-financed by the EU in relation to this process, the underlying assumption is that, once a project has been found both eligible and supportable, it is a straightforward administrative matter to sign the contract and pay out the sum involved. Therefore, the "approved grants" stage becomes an important part of the evaluation. The major stages of the application process are presented in the Figure 5 below (KPMG 2010, p. 22).

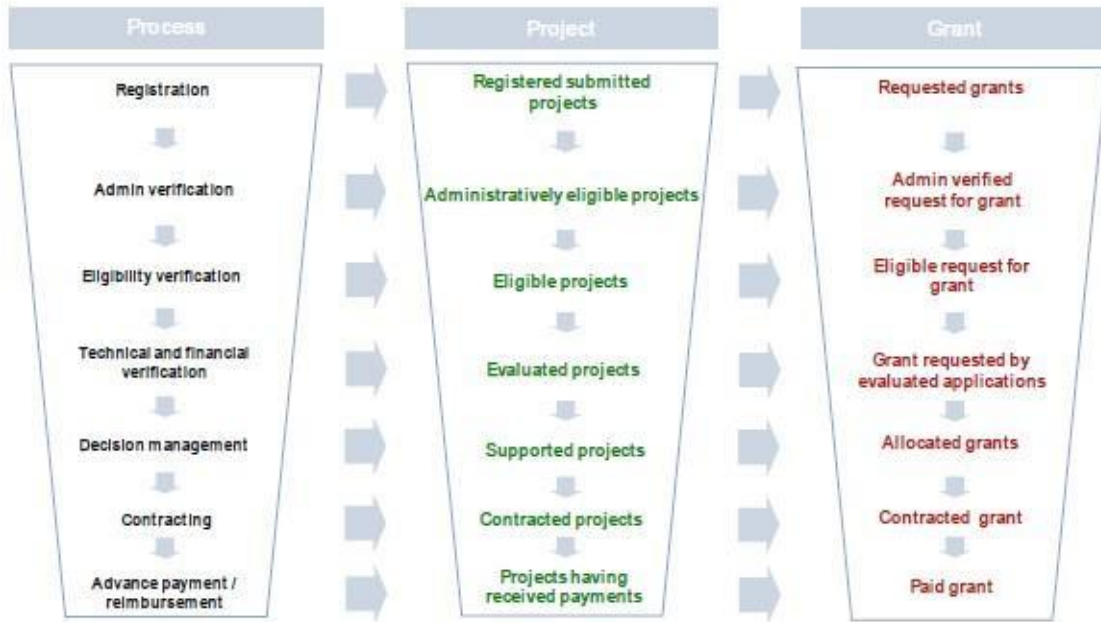


Figure 5. Major stages of the application process. Source: KPMG (2010)

3.2.5 Overview of the EU funds absorption

In order to get a clearer view of the evolution regarding EU funds absorption, I will present relevant data, both quantitative and qualitative.

For each year, Romania made a spending plan regarding the Structural funds.

The ratio of the allocation at the end of 2009 for the period 2007-13 was 29.4%. This indicates that the first three years of the seven-year implementation period had to use 30% of the total allocation, which means that the programmes under the NSRF programmes were generally end-loaded. The following chart shows the distribution of allocations over the implementation period.

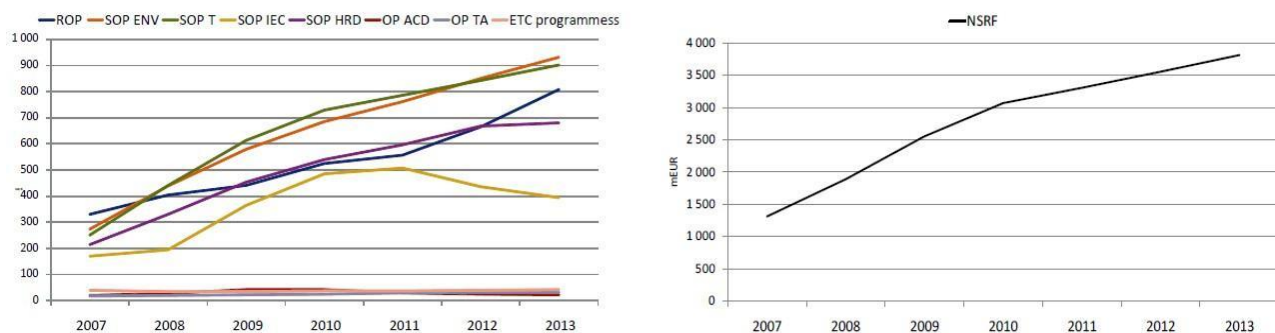


Figure 6. Schedule for the allocation of the funds for the period 2007-2013. Source: KPMG (2010)

In the first 4 years, Romania faced serious problems in accessing the funds. From 2012 the funds absorption rate increased, but, at the end of March 2016, only 75% of the available funding have been spent, even though the regulations were that, by the end of 2015, 95% of the funding should have been claimed.

In the mid-year of 2009, two and a half years into the funding period, there were major differences between OPs in terms of development: the programmes with the biggest improvement have been ROP and SOP IEC, with 2.5% contracted grants, at the other side being SOP T and OP TA, with 0.06% contracted grants. We can see in the figure below where applicants have shown interest and have even been paid (ROP and SOP IEC), and where there haven't been virtually any payments. (SOP T and OP TA)

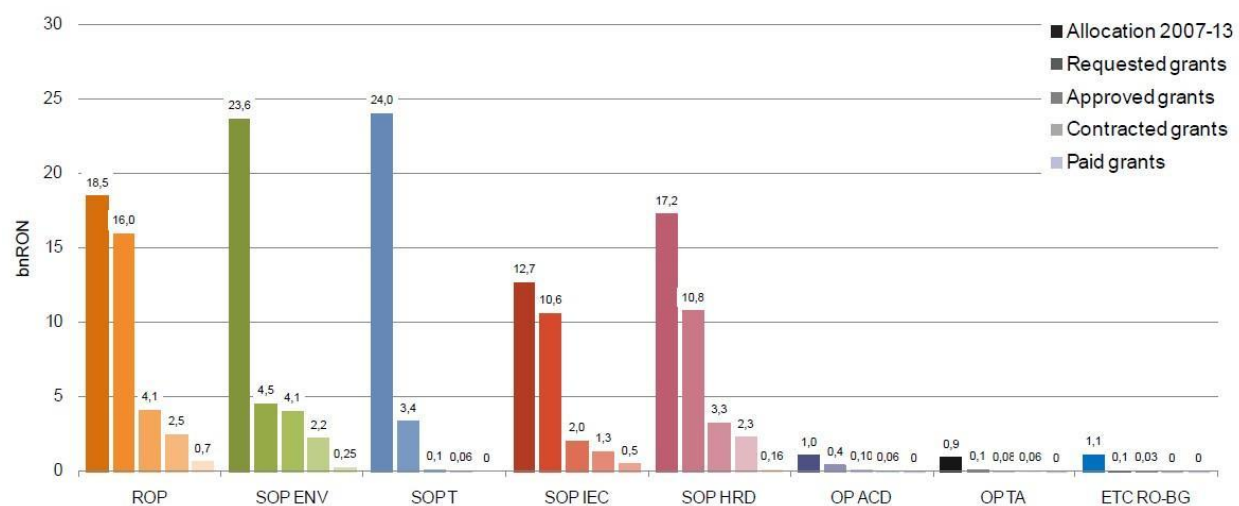


Figure 7. Overview of progress by OP - mid 2009. Source: KPMG (2010)

The progress (approved grants/allocation) has been of only 13.9% in this period, and the absorption was only 1.5%, a number so small that was alarming, even with an end-loaded approach.

	Popularity rate	Approval ratio	Contracting ratio	Payment ratio	Absorption ratio
ROP	254	20	90	17%	7,9%
SOP ENV	82	51	84	11%	3,8%
SOP T	66	31	100	3%	0,7%
SOP IEC	400	12	70	15%	5,1%
SOP HRD	189	28	70	8%	3,2%
OP DAC	116	25	82	7%	1,7%
OPTA	34	76	97	5%	1,3%
NSRF¹² 30/06/2010	168	24	82	11%	3,7%
NSRF 30/06/2009	46	72	61	18%	1,5%

Table 7. Process Factors of Progress (based on the Results of DCA); at 30.06.2009 and 2010; by OP; in % Source: KPMG (2010)

Only one year later in 2010, things started to move in other directions, as we can see in Table 7 above. As stated earlier, Romania tried an end-loaded strategy and that reflects on the popularity ratio of almost all the OPs with figures that doubled, tripled and so on. This was a result of an increased number of launched calls and interventions, and of the demand on the already popular ROP.

In 2011, some OPs absorption fund rates increased substantially, like the ROP, from 7.9% to 21.5%, and SOP HRD, 19% from 3.2%. SOP T had a small increase, from 0.7% to 2.48%, which was a very low rate after four years and a half, and some of the factors that led to this will be presented later on in the chapter.

Absorption rate for SOP T/year	Projects submitted (no.)	Projects approved (no.)	Projects contracted (no.)	Absorption rate (%)
2009	41	17	17	1.40
2010	63	35	27	1.84
2011	115	62	53	2.48
2012	151	91	83	6.46
2013	175	104	93	19.8
2014	246	129	110	36.99
2015	276	153	122	60.77
2016	-	-	-	74,63

Table 8. Absorption rate for SOP T/year, for 2007-2013 financing period in Romania. Source: Data collected from www.fonduri-ue.ro

SOPT had a slow implementation in 2012, seriously affected by the pre-suspension applied by the EC for irregularities identified in the MA and the key beneficiaries. Priority Axis 1 “Modernization and development of TEN-T PAs aiming at sustainable transport system integrated with EU transport networks” had the best performance with an implementation rate of 10.4% above the programme average, while Priority Axis 4 “Technical Assistance” reached only 2.4%.

In 2014, SOP T managed to recover the deficit as we can see in Table 8 above, almost doubling the absorption rate, in line with most of the OPs, at a rate of absorption of 36.99%, one year later after the termination of the programme. Applying the n+2 rule, Romania had one last chance to benefit from the EU funds. The small number of projects submitted isn’t a strange factor, because this OP is based on big infrastructure projects, and with a rate of almost 50% contracted projects, it’s among the best from all seven.

In November 2015, the absorption rate for SOP T was at 60.77%. The aspects influencing the absorption were: (a) incidence of the advance payments from EC; (b) low performance of MAs to certify and reimburse expenditures to the beneficiaries and to prepare and submit Declarations of expenditures to EC; (c) incidence of irregularities observed by EC for the expenditures declared by MA, leading to

corrections and payment suspension, in particular in case of Competitiveness, HRD, Regional OPs (European Commission 2014).

Temporarily, Romania has seen itself forced to redirect national funds from other investment priorities to continue funding of projects contracted under the seven OPs, due to problems in obtaining reimbursement of expenditures from the EC, correlated with corrections and payment suspension (Marinas & Prioteasa 2016, p. 9).

For the 2014-2020 period there is not much progress. There are over three years since the period started, and Romania hasn't managed to put in place the mechanism to start attracting the €32 Bn (structural funds and rural funds) that are allocated for this period. The Romanian Commissioner for Regional policy said that, only this year, in 2017, the documentation for the accreditation of the management and control institutions has been sent to the Audit Court, without them, the European Commission can't make any payments.³

Of the €3.8 Bn received from the EU in the current financial period, structural and rural development funds means €2.2 Bn, but they are advances. Those amounts have already hit the 15% that can be released as advances and if the state or private investors don't allocate funds to be spent on projects funded by the EU and the government doesn't set up institutions to deal with reimbursement of this amounts, the blocking situation that happened at the beginning of the 2007-2013 will be repeated.

For the year 2017, the MoPF has forecasted and has based its budget on approximately €5 Bn in funds from the EU, out of which half would be from structural funds. However, these funds are conditioned by the accreditation of the management authorities. As such, this estimation presents a high risk, being deemed unfeasible (Ziarul financiar, 2017).

In terms of transport infrastructure, no EU funds were attracted during 2016; but the Transport Ministry forecasts the amount of 300 MM EUR to be attracted in 2017, contributing to the total investment in roads infrastructure forecasted at €1 Bn (Antena 3, 2017).

In 2017, looking back, the European Commissioner Corina Cretu, stated that "Romania haven't been prepared for the absorption of EU funds from the beginning, like Poland and Spain, which had thousands of people preparing the projects, because of the lack of strategic vision."⁴ She also said, that Romania has almost 90% absorption of EU funds from the 2007-2013 period because "Romanian authorities "phased" projects so that they don't lose the money and took all the EIB and EBRD credits and the salaries of the staff that works with EU funds and put it on the EU funds."⁵

Therefore, Romania was helped not to lose funds by resorting to various tactics to increase absorption. The final outcome of EU funds, the decreasing of regional disparities will not be fulfilled with this type of management.

³ <https://www.news.ro/economic/corina-cretu-ne-aflam-la-jumatatea-exercitiului-financiar-2014-2020-dar-avem-o-absorbție-de-zero-la-suta-a-fondurilor-europene-anul-acesta-este-unul-crucial-pentru-romania-1922404008162017051716960801?source=biziday>

⁴ <https://m.antena3.ro/externe/uniunea-europeana/corina-cretu-romania-nu-a-fost-pregatita-pentru-absorbirea-acestor-fonduri-europene-inca-din-prima-412309.html>

⁵ Antena3.ro, op. cit.

3.2.6 Influential factors of absorption rate

According to a number of reports related to the absorption of EU funds in Romania, the administrative burden of the system represents a key factor of the management and implementation of structural instruments.

I chose to present in detail some of the elements that affected the absorption process over the years, although in reality there are many more than I could address in this dissertation thesis.

As we have seen earlier, SOP T had a very slow start, and in 2010, at the half of the programming period no advances or reimbursements were paid out. This can only lead us to think that the preparation of the projects were having serious difficulties. Major road development projects was and still is a problem in Romania, and this can be seen also by the evolution of the km build over time.

It is well known that transport infrastructure presume long periods of preparations in the design and planning of the projects. But, in Romania, with the financial crisis, not only the funds for planning and designing projects were cut, also the co-financing of the projects in the implementation phase has been put on hold due to budget cuts from investments. These have been political decisions that reflected the lack of will to respect the national key priorities.

For example, the 5 projects that had been submitted under Priority Axis1, until 2010, haven't been approved because of the time spent on the preparation stage. Delays caused by the poor preparation of the staff have been one of the major factors, and 80% of the OP's funds target have been the two major institutions in Romania that deals with road and rail infrastructure, namely, the National Company of Motorways and National Roads (CNADNR) and the Romanian Railroad Company (CFR) (KPMG 2010, p. 48). The highway projects have always been in a more advanced stage, which led to the transfer of funds from railways and water transport infrastructure projects to highways projects, even though this didn't respect the NSRF.

A KPMG (2010, p. 47) study intended to reveal the problems in the Romanian system, found out that the wealthier regions showed progress in the number of approved projects for road development interventions, with more than 60% of approved grants, while the poorest regions didn't have the same implication from authorities. In this regions the biggest problem is the lack of a strategic vision to prepare national projects so that it helps the development and the rise of the competitiveness level in the area. For example, projects from Priority Axis2 (national transport infrastructure) had huge delays because of the capacity of the beneficiaries to prepare viable projects. The same thing happened with the "Modernization and Development of Air Transport Infrastructure" which didn't benefited from projects because of the lack of a national air transport development strategy.

Under Priority Axis3 (inter-modal transport) the Romanian authorities didn't have any project, because it wasn't regulated in the national legislation and they didn't have a strategy for the development of this sector with viable projects. In the same axis, the poor capacity of the staff was found as a prime cause for the lack of projects related to the "Improvement of Traffic Safety across all Transport Modes" (KPMG, 2010).

On the Priority Axis4 (TA), public procurement procedures were the main element that led to a low number of projects contracted. The procedures takes too much time, and the number of complaints, but also the time to resolve them causes further delays (KPMG, 2010).

In the following chapters, I will discuss the factors that hinders the absorption rate of EU funds in Romania, which are related to my hypotheses.

Political Factors

Political factors have an impact on many areas of the public administration, since they have influence at legislative level, through the Parliament, and at executive level, through the Government which is voted by the Parliament. This affects the economic growth by the public spending and investments which are crucial for the development of the country. Their commitment to a strategic vision for the future, in order to ensure project development and coherent policies is a prerequisite for a good absorption rate. If we take a look at the number of km open to traffic over the last years (2008 – 0 km; 2009 – 42 km; 2010 – 28 km; 2011 – 68 km; 2012 – 128 km; 2013 – 107 km; 2014 – 22 km; 2015 – 64 km ; 2016 – 0 km)⁶ we can see that there hasn't been significant progress in this area. As President of Romania, Klaus Iohannis told in a conference: "The lack of infrastructure is the best proof that so far no government has avoided the trap of creating apparent short-term policies at the expense of medium and long-term policies."⁷ He also thinks that predictability of the Government and the Parliament is essential, in order to create a framework that leads to investments.

Even if, at declarative level, authorities are keen to continue the direction towards an effective management, frequent changes in Government has been found as a generator of "delays and bottlenecks for the efficient management and implementation of EU-funded interventions." (KPMG 2010, p. 63) An example of a situation that affected the performance of SI was related to frequent changes in the Ministry of Transport, and the managers from the two major institutions CNADNR and CFR which translated in delays in drafting new projects and in the implementation of older ones.

Also, frequent changes of Governments over the past 10 years decreased the predictability of the policies. For example, in the years following the financial crisis, there have been budget cuts from the infrastructure projects because the Governments didn't have enough money for pensions and budgetary salaries. A number of projects suffered delays. The contract for the modernization of the South Road Ring of Bucharest (32 km) have been signed in 2012 after a couple of years of bureaucratic delays, with a two year deadline. After the Government changed, in the same year, there have been 81% budget cuts, and in 2014 another government terminated the contracts, without any km constructed.

Co-financing is one of the important principles of Cohesion Policy and constitutes one of the elements that brings success to the EU funded projects. Romanian authorities always make the plan to spend money

⁶ <http://www.gandul.info/financiar/bilantul-autostrazilor-facute-de-guvernul-ponta-in-2014-22-de-kilometri-care-s-au-crapat-13715891>

⁷ <http://www.mediafax.ro/economic/romania-nu-a-inaugurat-niciun-kilometru-de-autostrada-in-2016-dar-are-10-000-km-drumuri-de-pamant-16244962>

on infrastructure projects, and during the year, with a number of budget rectification they leave the investments aside and don't co-finance the projects anymore.

The inappropriate long-term strategic vision can be demonstrated by the fact that Romanian authorities haven't been able to develop a General Master Plan for Transport, and this hampered the elaboration of projects that can sustain the development of all the regions in the country. Even though it was an ex-ante conditionality for the new PA for 2014-2020 period, due to political interferences in the redaction and adoption phase, it was signed in 2016, 2 years after the funding period started. The consequence is that, in 2017, after 3 years, the absorption rate for the infrastructure OP (LIOP) is 0%.

In fact the Romanian Minister of Transport announced that, in 2016, Romania lost €1 Bn for the transport infrastructure from EU funds, money that had to come in the 2007-2013 funding period.⁸

Corruption is another element that can delay the absorption of EU funds. Political interventions in the preparation stage of the projects led to a 1-2 year disruption of a highway sector construction. For example, in the autumn of 2012, the Ponta Government canceled the bid for revising the feasibility study, the essential document for the launch of the construction. It took almost 18 months for the Ponta Government to relaunch the tender (2012 article, hotnews.ro)⁹. The highway from Pitesti to Sibiu was one of the projects announced periodically by authorities, but because it is through the mountains and it costs a lot of money, it has been avoided. 85% of the costs would be supported by the EU funds (non-reimbursable), but politicians haven't been consistent in their actions and after almost 7 years no km has been built (2015 article, hotnews.ro)¹⁰.

According to a study from EC, corruption widespread in procurement is at 64% (national level), and 59% (regional level), and corruption widespread in society is at 91% (businesses) and 93% (individuals) which are high levels comparing to EU ratio. The World Bank placed Romania last among EU countries regarding control of corruption and government effectiveness (World Bank, 2013). They noted that payment of kickbacks, bid-rigging and conflict of interests are the most pressing issues regarding public procurement processes. An EC (2016, p. 184) study asserts that there have been problems of corruption in the procurement processes due to a lack of efficiency and transparency.

The incapability of the political factor to create the necessary framework for having a group of civil servants especially created to work with EU funds and to be paid based on merit, hampers the absorption rate of EU funds. After the financial crisis, the same politicians took the decision to freeze the budgetary recruitment and to cut the salaries with 25%, which increased the staff turnover. This led to the incapacity of the MAs to perform at their highest.

⁸ <http://incont.stirileprotv.ro/fonduri-europene/romania-a-pierdut-3-2-mld-euro-din-din-fondurile-ue-alocate-in-perioada-2007-2013-cei-mai-multi-aproape.html>

⁹ http://monitorizari.hotnews.ro/stiri-infrastructura_articole-19946362-bilantul-real-autostrazilor-dupa-trei-ani-guverne-ponta-zero-inceputi-finalizati-cabinetete-ponta-300-finalizati-dar-inceputi-guvernare-antioare-multe-proiecte-ramase-hartie-tergiversate-sau-bloca.htm

¹⁰ http://monitorizari.hotnews.ro/stiri-infrastructura_proiecte-19178868-autostrada-a1-pitesti-sibiu-perla-coroanei.htm

Institutional Factor and System and Tools

System and tools represents the methodology, procedures and partnerships for the programming and management of funds (Constantin 2006, p. 14).

Romanian authorities assigned the general methodology design for the OPs to all MAs in due time. The guidelines for the IBs have been developed afterwards.

The OPs in Romania have been designed in such a way that over the period 2007-2013 the beneficiaries would have access to the support on the entire period. This end-loaded character puts pressure on the later years because of the high volume of interventions that has to be processed. The state budget have to co-finance all the projects, and this has been a problem for Romania.

The bureaucracy of the Romanian system affects the procedures in all the policy life cycle stages. Even if sometimes, some of the amendments don't change at all the final result, it takes a long time for authorities to change them. For example, KPMG (2010, p. 64) found that beneficiaries have to open an account in the state treasury, which is a request that doesn't bring any kind of advantage for any of the parties.

In addition, the overlapping responsibilities between the MoT and the two institutions that are the principal beneficiaries of EU funds, CNADNR and CFR, reflects the lack of coordination between them. This translates in delays of many activities related to the various stages of the programming implementation. For example, "similar checks of the reimbursement claims" is one of the many activities that create this delays (KPMG 2010, p. 65). Cooperation between the institutions wasn't a regular "exercise" in the past, and this meant that the exchange of information, in the first years took longer and hampered the SOP T progress.

The fact that over the years there have been different reorganizations in the structure of the institutions, for example, CNADNR had been split in two, one institution for highway projects, and another that takes care of national roads, has affected the coordination between institutions and the implementation of the projects.

The late accreditation of the MA (2009) has been an important institutional factor that explained the SOP T progress in the beginning.

Also, the work procedures have been established very late, in spite of their great importance in the programming activity (Constantin 2006, p. 15). These procedures had the objective to help the planning and programming activities of the public administration.

The institutions from the public procurement system also have a role in the absorption of EU funds due to large delays generated by their activities. According to an EC report, the overlapping competences of the institutions in the area of ex-ante verifications and monitoring, represents an element that hinders the process of absorption, "resulting in inefficient operations and inconsistent decisions and guidance to contracting authorities" (EC 2016, pp. 180 - 183). The lack of clarity of the system creates misunderstandings for both public practitioners and bidders which then creates more delays in the implementation process.

According to a beneficiary questionnaire, 21% observed the need for a reduced bureaucracy and simplified procedures related to application and implementation stages. They stressed the need for less

documents that needs to be presented in the implementation period and for the digitalization of the process (KPMG, 2010).

Legislative Factor

The legal framework is another important factor which can influence the absorption of EU funds, that's why is important for member states to harmonize with European legislation.

There have been cases where legal framework modifications led to changes in the expenditure system, transforming the reimbursable into non-reimbursable (KPMG 2010, p 70). Romania doesn't respect the partnership principle, because the central authorities doesn't share the responsibility for programming with the local and regional authorities, and other partners that need to be consulted, in order to ensure a better use of SF. In the infrastructure sector there have been several attempts to realize public-private partnerships but Romania hasn't managed to develop a coherent legislation to set up this kind of agreement. As KPMG (2010, p. 71) asserts, "the only form accepted under the legal framework is the concession of goods and services, and this too is extremely difficult to apply due to legal inconsistencies".

A more concrete example related to the regulatory framework in Romania that affects the harmonization with EU legislation is given by the Government Decision (GD) No 28/2008 which requires a cost-benefit analysis and an economic analysis for major projects in line with the Article 40 of Council Regulation (EC) No 1083/2006. Romania haven't been able to develop national parameters needed in order to respect the EC directives (KPMG 2010, p. 71).

In Romania there have been frequent legislative and regulatory changes in the project submission stage, and this caused difficulties for the MA staff that had to evaluate and contract the projects. This affected the potential beneficiaries which were frustrated by the additional costs and loss of time.

Public procurement law represents one of the most debated laws in Romania. The system put in place generates delays due to the large number of complaints, leading to a chain reaction that ends with a loss of time in the implementation stage and in most cases, loss of EU funds. Even though the national authorities brought amendments to this law almost every year, and tried to reduce the time of the procedures, the Mechanism of Cooperation and Verification (MCV) still assess it as a cumbersome evolution with insufficient effects.

KPMG (2010, p. 73) points to a lack of models for procurement contracts, especially in transport infrastructure, which provokes "delays in the conclusion of contracts".

The Romanian Government Report for the period November 2015 – December 2016 shows that at the starting of this period, Romania did not comply with any of the 25 ex-ante conditionalities assumed through the Partnership Agreement with EU for the 2014 – 2020 programming period. Furthermore, there are no perspectives on how to comply with these, no national coordination mechanism and the process of negotiation with the EU was unclear. Over the mentioned period, the Ministry of European Funds became the coordinator and measures were taken towards complying with the 25 ex-ante conditionalities. These measures included weekly progress monitoring, legislative measures, provision for technical assistance to public institutions and a unified system for the negotiation with the EU.

Consequently, at the end of 2016, Romania was complying with 9 conditionalities and was on the right track for 11 others.

Additionally, Romania made progress also in the procurement law, as primary and secondary legislation was passed in order to facilitate the SF funds implementation process.

Another Romanian flaw is the need to increase the number of procedures and restrictions, even though it isn't in line with the EU Financial Regulations. There have been several cases where authorities asked for "duplication of checks between MA and IB in the case of reimbursement claims", and "several signatures on each page within the Application File", which represents an exaggeration and limits the possibility of a quick implementation of the project (KPMG, 2010).

Another legislative shortcoming in the transport infrastructure sector refers to the large number of authorizations and permits that are required in the submission stage of projects which creates difficulties for the applicants. Even more, usually this kind of acts expire until the end of process which become a burden for the same applicants because they have to renew them (KPMG, 2010).

The land expropriations have been affecting the implementation of projects in the SOP T, but the procedures have been changing over the years, in order to smooth the process.

HR Factor

The pre-accession period was a solid foundation for the institutions and the staff within it, to learn what it means to manage and implement SI.

The European Commission proposed the level of staff that Romanian authorities had to have, after 2007, in order to be efficient and effective. Although the state hired in the first instance, with the financial crisis, they decided to freeze the hiring of new staff, and reduce the salaries with 25%. This caused the turnover rate to increase. Because the strategy of the authorities to attract EU funds was based on end-loaded programmes, the level of work increased over time and the pressure put on the staff as well.

The payment system in Romania has a lot of malfunctions, the most important being that employees with the same kind of area of expertise get different salaries, depending if they work for the local or central bodies, leading to the migration from the public to the private sector (Popa 2010, p. 267).

The labour market didn't have enough candidates with experience to help with the management of SI, leading to an increased burden on the personnel. At first, people from MAs didn't know how to write a good project, and how to manage a good project.

The KPMG (2010, p. 125) study shows that only 77% of positions were filled in 2010, and the incapacity of the institutions to hire new people on permanent positions created additional pressure on people who had to stay over the schedule anyway. This low level of filled positions was also due to persons who were on maternity leave or detachment.

MAs had to use external consultants, especially in the procurement technical evaluations, but the recruitment process usually took longer causing delays in the project selection or contracting phase (KPMG 2010).

The training of the staff put a serious problem in the institutions from Romania. Money from TA within SOP T haven't been used properly, in order to assure a good level of training to the personnel. At first, the lack of experienced trainers have been a problem. Plus, MA's opinion was that the training is too general (KPMG 2010). Less than 40% of the staff in the planning and programming area have attended trainings and own suitable qualifications for working in this field. (Constantin 2006, p. 12) Therefore the capacity of the MA has decreased because of the quality of the work performed by the staff.

Interviews with beneficiaries emphasize the need for technical support from MA's personnel and also specialized staff on the implementation and monitoring stage. They complained about the amount of time that it takes to receive an answer, and in general to the level of communication between MA and beneficiaries. They observed that there isn't enough staff so that they can receive help in due time (KPMG 2010).

Other factors

There are other factors that provoke a low absorption rate of EU funds but since I have limited time and space for my thesis, I will only just make a review of them.

The *economic factor* influenced the absorption of SI assistance from the macroeconomic framework, especially after the crisis from 2008. The decline of private consumption which is usually the motor of the GDP increase in Romania, has led to downturn of investments. A number of approved projects have been withdrawn and this affected the absorption rate.

Also, a survey by the National Bank of Romania specified the difficulties of lending money, banks have tightened the credit standards and the cost of credit has increased which had "a major impact on the private entities' access to capital and investment resources" (KPMG 2010, p. 68).

The capacity of MoPF to co-finance the projects was an issue, but the €1 Bn loan from the European Investment Bank (EIB) aimed to help the authorities to invest in projects related to infrastructure (KPMG 2010, p. 69).

The *capabilities of beneficiaries* in preparing and implementing the projects affects the absorption rate of funds. In the transport infrastructure sector there have been problems with both, with more delays in the implementation stage, due to different procedures and regulations. Unfortunately, the level of staff experience and a poor budgetary planning makes this sector a vulnerable one, even though is a priority, at least at declarative level.

The progress of *SOP T Information & Publicity (I&P)* wasn't good enough, thus contributing to a poor information of the target audience. I&P measures addresses to different kind of groups, potential beneficiaries but also general public. There hasn't been given attention to this area, although it was necessary for helping potential beneficiaries "in terms of preparation and implementation of projects (eligibility and selection criteria, CBA, procurement plan, timetable of activities, financial plan etc.)" (KPMG 2010, p. 97).

Another way to discover what influences the absorption rate is through the use of interviews with beneficiaries. A study shows that “the most hindering factors were the reimbursement system, the lack of or too small sum of advance payment and administrative burden, paperwork, bureaucracy” (KPMG 2010, p. 124). These were the answers of the beneficiaries that reflected the findings of the experts that examined the factors regarding the absorption rate in Romania.

4 Analysis

Introduction

Although Romania joined EU in 2007 and therefore had access to SF since then, in the period leading to this, the country benefited from pre-accession funds. These funds were deemed, among others, to prepare the country's administration to cope with the upcoming management of EU SF.

Romania faced administrative challenges from the very beginning, being characterized by a “weak administrative capacity, staff fluctuations, unreformed public administrations and political interferences” (MWH, 2007). And as shown also in the empirical chapter, not much changed in this regard after its accession to the EU.

A report ordered by the EC, analyzing the effectiveness and efficiency of cohesion policy implementation during the 2007-2013 period, observed that Romania had problems dealing with SF due to a number of factors. The new decentralized structure of the system and the lack of clear means of coordination were the drivers of inconsistencies and overlapping responsibilities between different actors involved. The HR management also posed some problems, because of high turnover of staff and lack of expertise. Another issue was related to long procurement procedures, which led to delays in the implementation of projects. Another major drawback for administrative capacity's performance in Romania has been the political factor. A good performance of administrative capacity relies on political stability and political support, providing it with balanced institutional design, simplified procedures and adequate human resources, both in terms of number and capabilities. These are also the elements from the three hypotheses that I considered to be most influential in the administrative capacity of Romania.

As such, at the time of its accession to the EU, Romania possessed most of the counter-productive items for a successful implementation of structural funds. Over the course of the SF programming periods, Romania showed high political instability, high staff turnover, a confused institutional system with unclear and overlapping responsibilities, high uncertainty of procedures which suffered frequent changes, to name a few.

The analysis will present facts as depicted from the empirical chapter of this thesis, in relation to the three components of the administrative capacity presented in the theory section, namely “organizational structures”, “adequacy of human resources”, and “administrative adaptability”. In the following subchapters, the three hypothesis will be analyzed in the light of the choices made by the Romanian authorities over the years, facts that are connected with the components specified above and that will test their validity. The hypothesis related to the political factor will also be connected to Simona Milio's findings.

4.1 Underqualified staff and insufficient recruitment, underpaid staff and fluctuation of personnel

Introduction

Human resources represent the biggest currency that a private or public organization can have. Even if the new tech era is starting to replace the human personnel needed in certain fields, the public sector relies very much on human resources which have to prepare, implement, monitor, evaluate projects and much more. Because of the pre-accession instruments (PHARE, ISPA), Romania was aware to some degree of the capabilities that are needed for the EU funds. Moreover, the negotiations between the Government and the EC for the institutional arrangements, included the level of staff required, and still there have been problems in this field.

Although the number of projects increased, with all the OPs established in the 2007-2013 framework, additional staff wasn't hired, not to the level needed, which put pressure on the personnel involved. Moreover, in the first years, there weren't enough candidates with SI experience that could fill the gaps in the system.

From the administrative capacity assessment that Bachtler et al. proposed in his work, namely availability of suitably qualified staff and human resource management, I can assert that Romania can be qualified rather as an absent/rudimentary state. Due to severe lack of sufficient and qualified staff, and high turnover, there have been problems in all of the policy life cycle.

Also the results of the HR management can be seen from the instability created by the decision to freeze the hiring in the public administration, not reforming the laws regarding the civil service system, and not promoting a merit system based on performance and clear indicators.

For the assessment of administrative capacity, in Romania I identified a lack of sufficient and qualified staff, and a HR management system with limited performance assessment and staff development functions.

In the last months, there have been signs that a coherent reform regarding the unitary salary law of public administration staff is coming up, but time will tell if it will happen and what will be the cost and benefits of it. This is an important element of the civil service system which was also addressed by the OECD as influencing the level of administrative capacity.

4.1.1 Underqualified staff

In the infrastructure sector, there have been problems with the quality of the projects that beneficiaries had to prepare because of their limited capabilities. The TA received was not sufficient to help them develop mature projects, which resulted in a low absorption rate. Usually, the MA had to recruit external consultant for the technical evaluations in the public procurement domain, but when this type of

recruitment processes took longer than expected, it created further delays. Another problem was the lack of qualified trainers that were needed for the application of the TA projects.

According to a Commission report, Romania had funds to diminish the administrative shortcomings, but “only 28% of the OP budget was allocated to capacity building activities aimed at developing human resources and administrative systems” (APPLICA and ISMERI Europa 2016, p. 14). This demonstrates the poor strategy regarding the training of the staff and is correlated with one of the baseline issues presented in the theory that stipulates the necessity for the development of civil service capacities.

OP TA takes care of the trainings of the human resources that are involved in the management and implementation phases, and each OP has TA funds that can access. Unfortunately, SOP T hasn’t managed to use the resources available under the TA programming at a high level, because there was a lack of planning and a proper TA background. Also MAs didn’t have enough expertise to make use of this TA in order to be able to increase the quality of documents for project preparation, verification of the analytical tools of feasibility studies, cost-benefit analyses to the specific characteristics of the transport sector.

The level of staff in the institutions that have roles and responsibilities in the public procurement is not at an optimal level, and this leads to delays in the reviews of the documentation. Even though the problem persists, the staff doesn’t receive enough training to make a sensible progress. Also, the contracting authorities that needed guidance from these institutions didn’t receive it in time because of the same staff restrictions and quality, causing further delays.

4.1.2 Lack of personnel

The baseline issue for the civil service area points to the efficiency in management of public servants and in control of staffing as an issue influencing the administrative capacity.

After the economic crisis hit, the political decision was to freeze the public sector hiring and 25% salary reduction for budget employees which affected the IBs and MAs capacity to perform their responsibilities at a good rate because of the lack of personnel. These regulations affected the staff situation, from another perspective as well, as some of the personnel couldn’t perform the job because of sick leave, maternity leave, etc. increased, and new staff couldn’t be hired. Also, good experts were almost impossible to hire on a fixed term contract. Furthermore, the abolition of the National Institute of Administration in 2009, reduced the number of qualified personnel in the central and local government. There isn’t a clear reform on human resource policy for administrative entities, and the decisions of hiring and firing staff isn’t done on a clear strategy. Bachtler and Gorzelak discussed about the high staff turnover and lack of specialist skills as two of the elements that demonstrate the weak capacity of the new MS.

The National Authority for Regulating and Monitoring Public Procurement (ANRMAP) had frequent delays because of a lack of personnel. It had the obligation to perform the *ex-ante* verification of all awarding documents in the country and had the obligation to review such documentation within two weeks of submission, too fast for the capabilities of the staff.

The lack of expertise in specific public procurement matters obliged contracting authorities to look for outside consultants in order to prepare tender documents. The problem was that they didn’t prove to be

impartial. Another issue is that authorities didn't always used the work of the consultants, losing money and time in the process (EC 2016, pp. 181-185).

Romanian authorities had a tendency to develop projects that supported a modal shift from rail to road, even though the national and EU strategies stated otherwise. Because the preparation for the railway projects took more than planned initially, and the implementation has been delayed, The MoT reallocated the money to road projects. In theory this might seem like a good idea, but it creates imbalances in the absorption of the SOP T, and it doesn't focus on key priorities. Romania suffers when it comes to administrative adaptability. The strategy for MoT and the MA was to absorb as much funds as possible, not to make the best use of available resources (MoPF 2011, p. 6).

4.1.3 Underpaid staff and fluctuation of personnel

The legal status of civil servants represents an issue for the assessment of administrative capacity. Along with professionalism and stability of public servants, they represent two of the elements that must be discussed as influencing the administrative capacity of the Romanian system.

The remuneration of staff responsible for SI management and implementation is a sensitive factor that can influence the final outcome that we are talking about, which is absorption of EU funds. In Romania civil servants aren't remunerated on a performance basis, which hinders the process of recruitment. Good specialists prefer to work for the private sector, and those who work in the public sector, usually don't have enough experience and quality to overcome the difficulties that appear. This is why, the high turnover rate of staff creates administrative capacities gaps and leads to bottlenecks. Moreover, due to promotion accorded to extra-professional criteria, people aren't willing to stay on a job with high workload and responsibilities, and small salary and incentives, thus the migration of the personnel being a constant.

In 2017, after 10 years of being a member, in Romania there is a plan to change the law of unitary remuneration in public administration, which will be adopted by the Parliament and will start having effects this year. After years of failed reforms and small changes, there are good signs that the salaries in the public sector will rise in order to be competitive again and attract specialists from the private sector. It appears to be the largest reform in the last 10 years, and different unions seems to be satisfied with the multi-annual budget framework proposed for the years to come by the actual Government. It remains to be seen if the national budget will be able to support these massive changes over the years. EC already gave a warning regarding this law, saying that it represents a "significant risk" for the budget deficit, but the Minister of Finance, Viorel Stefan, said that Romania will meet the budget deficit target of 3% of GDP, set in the Maastricht Treaty.¹¹

My conclusion is that there are too many problems regarding the HR management which hinder the progress of EU funds absorption through an inability to train and prepare the human resource, establish staff dedicated to the management of European projects and salaries based on performance. As Bachtler et al. (2015) highlighted, one of the main factors influencing the administrative capacity is the availability

¹¹ http://www.romaniatv.net/viorel-stefan-suntem-pregatiti-sa-reducem-cheltuielile-daca-deficitul-bugetar-este-in-pericol-de-a-fi-depasit_345868.html

and quality of human resources; and as I have analyzed in this section, it is clear that Romania is falling short on both criteria. Therefore, my assessment is that all these HR management related problems have a considerable contribution to the low absorption rate of EU structural funds in Romania.

4.2 Political lack of strategic vision, instability, interferences from the top and widespread corruption

Introduction

An important factor that influences the EU funds absorption and spending rates relates to politicians. They are the ones that establish the political direction, and their commitment to support the institutions involved in the process is crucial.

As Simona Milio discusses in her work, there “should be a clear distinction between the responsibilities of the administrative and political power” (Milio 2007, p. 65). On this note, delays can occur from the poor management of human resources in the public administration, but also from the political decisions, or inactions, which can harm the process of implementing the strategy that was set.

The empirical analysis provided several indications that the political management influences the absorption rate of EU funds by having an impact on different layers of administrative capacity like determining the structure of certain institutions, changing their management, adopting laws that may complicate or ease the work done by the civil servants, and so on.

In the next subchapters, I will expand on these thoughts.

4.2.1 Lack of strategic vision

A lack of planning regarding long-term strategic vision is a political factor that hasn't permitted the elaboration of more coherent and coordinated policies in order to attract funds and investments. For example, because a national strategy for the development of inter-modal transport didn't exist, there hasn't been any project submitted for the Key Area of Intervention (KAI) 2.4 and KAI 3.1 under SOP T, until 2010. Only in August 2009 has the MA for SI implementation been accredited, thus the SOP T started with a shot in the leg.

Also, as we have seen in the empirical section, the Transport Master Plan which is an ex-ante conditionality for the 2014-2020 period, has been signed and adopted in 2016, two years later than it had to. This prevented the preparation of infrastructure projects, which is another direct cause of weak fund absorption in Romania. The political will and pressure to sign and adopt this Master Plan wasn't effective enough, leading to this delay.

Furthermore, this lack of political commitment puts additional pressure on the existing human resources. As we have seen in the previous section, there are several problems with HR management and the delays created by the political element creates even further problems. For instance, the late approval of work

programs generates a very high workload for the staff working with the implementation of structural funds, towards the end of the programming period; and adds additional pressure on them in order to achieve a reasonable absorption rate.

In 2014-2020 period, we can see the same lack of coherence in developing the institutional structures needed for implementing the ESIF, because there have been three years and a half and there are only two MAs accredited, and 0% absorption rate of EU funds. Therefore, the Government of Romania did not apply the lessons learned from the previous implementation period, to take measures for a proper start of the 2014 – 2020 period. The allocation of competencies and responsibilities is a major operational weakness in Romania, and the lessons from 2007 haven't been learned.

The EU funds that should have contributed to the development of administrative capacity were used in proportion of 75% for regular activities of central public administration that should have been paid from the national budget, which shows an inadequate vision of Romanian authorities related to this important aspect that should increase the efficiency and effectiveness of the public sector.

Another major issue in the political management of EU funds has been the lack of multi-annual budgeting. It is well known that EU funds have the role to complement the state investments, not to replace them. Thus, co-financing is a very important element that Romania didn't planned. In Romania, municipalities have a certain degree of autonomy, but they didn't include in their budget the amounts for the EU supported projects.

Under SOP T, the main factors that hampered the absorption of EU funds, especially in the first years, have been the lack of a strategic vision and experience to develop complex projects, the low quality of technical assistance received, public procurement disputes and the late accreditation of the MA (2009).

Also, as financial crisis hit in 2008, almost each year, in order to respect the deficit agreement, the money allocated for investments in infrastructure projects were taken and used to cover the payment of pensions and salaries to public servants, or to help “organize more efficient” elections. Because this decisions had a political background, we have to remember Milio's words, that there have to be a “clear distinction between administrative responsibilities and the political arena of power”. Without independence in allocating resources according to the needs for each region needs, there have been delays in implementation of projects, jobs, time and money have been lost.

4.2.2 Political instability

Simona Milo states that “government stability through the entire period ensures continuity and coherence in the programming process.” Her opinion is that stability means a maximum of two cabinets, every five year.

One of the major factors, if not the main one, that explains the lack of long-term strategic vision in Romania are the frequent governmental changes. Since 2007, so over a period of 10 years, Romania had eleven (11) Governments, some of them in place for as little as 3 months which is highly unusual for the countries in the EU, and this led to changes in some of the key positions that are involved in the process of EU funds, including ministries, therefore producing bottlenecks for the management and

implementation procedures. These changes create unpredictability of government policies which affects the absorption of EU-funds. What is more, the prime-ministers changed even more often, as for example between June and November 2015, Romania has changed its prime-minister five times during one government.

The frequent changes of the government crippled the effectiveness of management within the administration. Also, as Simona Milo asserts, it affects the credibility, and the systems that are managed by persons which are designated politically. In Romania, there have been frequent changes of the management staff involved in the national companies that had to implement the European projects which caused delays.

As seen in the data presented in the empirical section, another issue is related to the popularity of the OPs, especially of the SOP T, which was very low, fact caused by the policy maker's inaction when expected to identify solutions related to the planning process. This creates a gap between expectations and demands and some OPs calls aren't "used" at full capacity.

4.2.3 Interferences from the top

Although the "poor staff remuneration" can be considered a HR factor that affects the implementation and management of SF, my opinion is that the political factor have a great influence in this field. Politicians discussed over the years about a big reform regarding remuneration policy for civil servants, especially those involved in the process of EU funds, but they always failed to find a common ground with the national unions. Therefore, professionals always preferred to work for the private organizations. With the financial and economic crisis, politicians decided to restrict the recruitment of new staff in public institutions, and they influenced the capacity of the IBs/MAs to achieve better results and perhaps increase the absorption of EU funds.

The favoritism in the process of SF implementation can be seen also in the case of SOP T. Because in the SOP T there are contracts with large sum of money involved, there were cases where some competitors received confidential information in order to be able to have an advantage in the public procurement process. Other times, there were introduced hidden clauses to limit the competition. Another law violation due to poor management was the award of a contract to a company that does not meet the eligibility criteria, and the disqualification of another that fulfills them. Lack of a good management system regarding public procurement and the inability to regulate it, leads to fraud, corruption and infringement procedures.

Simona Milio states that political accountability is one of the factors that affects the administrative capacity, because of these kind of political interventions. In Romania, some politicians have been held accountable and sent to trial due to implications in projects funded by the EU. Unfortunately, when they tried to pursue their short-term interest over the national long-term interest, they ended been prosecuted for cases of corruption. Also, Romania has been under the MCV and still is, because politicians aren't able or willing to make the necessary steps in fighting against corruption.

The European Commission had to sanction Romania by suspension of payments in 2011, 2012 and 2013. All the reports sent by them specify the same vulnerabilities of the implementation system of structural

funds in Romania, and politicians haven't managed to solve the issues. The main problem presented in these reports relate to inefficient procedures and political interference and the weakness of the judicial system that can't fight against conflict of interest, corruption and fraud.

Due to a lack of strategy, after transposing EU public procurement Directives into national legislation, politicians brought important amendments to the legislation which affected the process and led to possibilities of breaking the law. This also reflects the lack of political accountability that affects the good course of the public procurement actions.

4.2.4 Widespread corruption

Another major problem in Romania is related to corruption and lack of transparency in accessing and implementing European funds. This is why Romania is verified by the European Commission through the Cooperation and Verification Mechanism (MCV). The two problems mentioned above are seen in the public procurement processes. Politicians haven't tighten the law were officials are involved in cases of fraud, thus treating this problem with ease and giving the opportunity for fraudulence to rise. Furthermore, just recently, in January 2017, the new Government of Romania adopted an Emergency Ordinance in support of corruption practices. This triggered major unrest in the country and wide critics in the EU; which led to its withdrawal. These type of actions are extremely detrimental to the rule of law and to a stable governance that would create a favorable environment for the attraction of EU funds. Bachtler and Gorzelak have drawn attention to the corruption and lack of accountability as a reference for a weak capacity in the new MS.

Corruption can be seen at different levels in the process of implementation of structural funds. It ranges from indirect effects that can be triggered by actions of the central government, such as passing of laws against the citizens' best interests; to direct effects, such as actions of the local government or of agencies involved in the process, to favor certain beneficiaries. As shown in the empirical part of my project, the favoritism has been revealed by several audit reports, consisting of different actions, such as improper evaluations, elaboration of specific requirements in the project call to which only a beneficiary could have complied, disqualification of other applicants without valid grounds, and so on.

From this perspective, I agree with the ideas of Milio, that corruption affects financial decisions, governmental expenditure structure, human resource structure; this especially when it's encountered at central level. Moreover, in Romania, it appears to affect all levels of public administration, being a wide encountered practice.

Although she claims that it is difficult to measure, as it largely relies on the public perception, it is quite clear that Romania is a country with a high degree of corruption, which has been revealed not only by the public opinion, but also by many audit reports, by the MCV and by the intensified activity of the National Anti-Corruption Directorate.

Public procurement is one of the areas that influences the administrative capacity, and its assessment is made by the "inclusion of a defined set of principles in public procurement legislation" and "clear legal basis and adequate capacities for the central procurement organization". In the following paragraphs I will present some of the problems in Romania that are related to them.

An Activity Report from 2013, from the National Council for Solving Complaints (CNSC) states that 40% of the complaints regarding public procurement procedures in Romania, were about contracts financed by the European Funds. In 2014, “1,581 challenges were submitted and resolved by the CNSC in respect to EU-funded procedures, and 2,172 challenges in respect to non-EU funded projects.”¹² The same report shows irregularities included transparency and publicity rules, non-compliance with the principle of equal treatment and application of restrictive qualification and selection criteria.

The last problem involving public procurement that I will talk about refers to the institutional organization which includes several actors that have overlapping competences, and this can be easily solved by law. I will talk about this problem also when analyzing my hypothesis related to the institutional design, but I find it appropriate to talk about it here from the perspective of legislation. There have been cases where both MAs and IBs had to run similar checks of the reimbursement claims which can create delays and limits the capacity of the administration to deal with this type of processes. Procurement legislation is revised often, and still it lacks coordination and consistency, which we can see from the high numbers of corruption and fraud cases, and also from the fact that secondary legislation and implementing regulations go against the primary laws (EC 2016, pp. 185-188).

Even though an e-procurement system has been adopted, in order to ease the process, and avoid numerous corruption and fraud cases, there were several big national cases where the system has been rigged and a lot of money from the budget have been lost. This demonstrates that public procurement continues to have major problems in Romania and needs to be tackled by implementing better laws. This should be a direction that politicians should set as a priority and propose better regulations.

In my perspective, in Romania, corruption is strongly linked with the lack of strategic vision. As the politicians are pursuing their own interests, they are not working towards a strong country vision. Therefore, the programs in Romania become fragmented, and often rules are made to serve different interests of the political scene, without considering the best interest of the country.

In this light, I take that corruption is a foundation for the lack of strategic vision. And as Milio also points out, the lack of accountability of the political class generates serious problems for the administrative capacity of a country. Therefore, I assess that the lack of accountability of Romanian politicians, their corruption and their lack of strategic vision are important elements that contribute to the low absorption rate of structural funds.

4.3 Bad institutional design, unclear competences, legislative barriers

4.3.1 Legislative barriers

For a good absorption rate, is needed a strong and logical legal framework that meets the EU requirements. Apart from many other problems, the programming documents for 2007-2013 didn't have

¹² Public Procurement, European Commission, *ibid.*, p. 6

a good connection with national strategies, and the statistics demonstrated that the regional disparities hasn't diminished in all these years.

Although there have been taken steps to correlate the national legislation with the European framework, there have been cases of differences due to legislation. Reports from the EC reveal that one of the aspects related to slow absorption is the lack of predictability of the legal and institutional framework because of the repeated changes that discouraged the potential beneficiaries. This is also one of the issues of the administrative capacity

An important legislative shortcoming comes from the legislation on the national budget, which contains a number of provisions affecting the efficient and rapid implementation of projects. According to a report issued by the Romanian Government (2010), some deficiencies have been solved with the approval of the Emergency Ordinance no. 64/2009 on the financial management of structural instruments and their use for the convergence objective. However, there are still some management regulations on the public funds that hinder implementation, such as the public finances law and local public finance law.

To implement the regional policy better, local authorities have to participate in all stages of life policy cycle, and one important factor is represented by the funds they receive. The financial and fiscal decentralization in Romania is still a big issue that hinders the development of many poor regions. The transfer of tasks and responsibilities related to the legal framework has made serious steps, but transfer of financial resources still remains a procedure that the central power doesn't want to lose. It is possible to implement good projects with a central management, but only if there is a strategic vision and efficient institutional coordination of mechanism and resources. In the empirical section we have seen that Romanian government doesn't want to respect the fundamental principles of EU regional policy, it doesn't *concentrate* resources, efforts and spending on the poorest regions. Romania doesn't respect the principle of *partnership* which means to share responsibility with various stakeholders involved in the policy making process; and also doesn't have a coherent legislation in order to develop public-private partnerships.

Other factor that hinders the process is related to the national legislation requiring several authorizations and permits when submitting the project (especially environment and construction related). Unfortunately these are valid only for a short period of time, which doesn't cover the entire time duration until the project is contracted, so this leads to a need for renewal and additional costs for applicants. Also, there are several issues regarding the expropriation process in the transport sector and national legislation is always updating in order to smooth the process.

In the transport infrastructure projects, expropriation law is not enough regulated, and beneficiaries can't respect the deadlines.

Legislative obstacles with a heavy impact on the absorption rate are influencing every stage of the implementation processes, including the designation of strategies and priorities, preparation of applicant's guides and contracting and project implementation.

Establishing procedures and tools for attaining a better absorption of EU funds has been a problem in Romania, in part because of the will to adapt to EU legislation and to create procedures that complements the law and helps the applicants with the bureaucracy involved in the process of submitting the project.

4.3.2 Institutional design

In Romania there are constant changes in procedures which only slows down the process and creates bottlenecks, mainly regarding the applications evaluation and contracting stages.

One of the issues in Romania is related to the number of institutions involved in the process of management and programming, which increases the risk of a low absorption, according to the European Commission recommendation, and also to an Evaluation of Structural Instruments in Romania, study co-financed by the EU. The latter (KPMG, 2011) recommended a restructuring of the MAs and the institutions involved. However because of the long time necessary to certify new institutions and dissolve the old ones, the old structure remained in place. This points to a lack of general strategic capacity, one of the issues that influences the administrative capacity, as presented in theory section.

During the first years of SF implementation, an audit from the EU revealed serious problems and led to improvements and administrative adaptability that included the establishment of two ministries in 2011, respectively 2012: one specialized in European Affairs and the other in EU funds. In the first period, Romania opted for a semi-centralized system, with the Ministry of Finance coordinating the Management Authorities through CCU (ACIS). Additionally, two other institutions were involved, for audit purpose. Namely, the Certifying Authority, checking the payment claims from EC and the Audit Authority. Prior to 2012, ACIS had a limited ability to coordinate the SF implementation process because it received a rather limited institutional and political authority. Additionally, problems at the administration level were also encountered in terms of procedures interpretation and transparency towards the beneficiaries; as well as high bureaucracy. The EU involvement shows the organizational structures problems in Romania which had significant operational weaknesses. Also the lack of formal and informal channels for coordination is another aspect that shows the poor administrative capacity.

I will give some examples that demonstrate the lack of administrative adaptability in the procedures and tools used in the companies that had to implement railway and road infrastructure projects, namely CFR and CNADNR.

Frequent changes in the Applicant Guides slows the process, confuses the applicants and raises the costs for the adaption of documents required. Frequent amendments were brought to eligibility conditions related to the beneficiary or projects, some of them during the session of projects deposit, which led to disapproval of projects because they didn't respected the new requirements.

Delays occurred in the implementation of approved projects because there haven't been models of procurement contracts, especially in large infrastructure projects, such as environment and road infrastructure.

Another issue with the implementation procedures is that, in the specialized literature is estimated that 55% of the administrative procedures were set at EU level, while 45% of them were set at national level by Romania; which reflects the rather increased level of bureaucracy of the country (Cace et al. 2011, p. 101).

Bureaucracy is a widespread characteristic of the Romanian system. Some examples that can be given in order to understand the minor, but important requests from the institutions which deals with the EU funds are: beneficiaries are obliged to report any changes of activities, even if they don't have any

connection to the project results; beneficiaries are obliged to open an account in the state treasury even if this doesn't have an impact on the monitoring conditions. These kind of requirements imply waste of time and money from the beneficiaries, and moreover, they make those who want to access funds to think twice if it is worth it.

The transport infrastructure investments have been a problem in Romania, not only because of the lack of planning, but because of cumbersome procedures that haven't changed over the years, even though we could have benefitted from EU funds to increase the size of the investments. In order to implement projects that are financed also from the state-budget, the Government needs to approve them, and usually this leads to a great number of projects that are approved due to various pressures, but also to unpredictability, since there aren't enough money to cover them all.

One main factor that affects the progress of absorption of EU funds related to SOP T is represented by the long and sinuous process that is dependent on many actors. The process of approving this type of investments requires the evaluation of each beneficiary that have to check the technical sustainability. The MA has to analyze the project proposals and usually rejects the projects due to selection criteria or asks for more clarifications. The EC has to receive the project and approve it. Because there isn't a clear national strategy, or it isn't followed, the projects doesn't respect the TEN-T policies and are rejected. Usually, the projects have delays in the preparation stages. Also, estimates say that projects spend under assessment an average of 100 working days at the EC level, and 70 days at national level. As we can see, a number of procedures and a lack of strategy can easily lead to a poor absorption of EU funds. Regarding the assessment of administrative capacity this reflects the lack of formal and informal channels for coordination.

The public procurement system causes even further delays because of the high number of complaints and the number of days that it takes to solve them. In the implementation process, contracts can't be signed, because the complaints can't be solved, due to a limited amount of time given. Delays in the implementation are also caused by the institutions that couldn't offer to the applicants some type of contract that are needed to be signed in order to finish the public procurement procedure. This hasn't changed much, which according to the assessment of administrative capacity shows that no mechanism for adaption has been established.

Unnecessary requirements made by Romania has determined the slow progress of implementing projects in an efficient manner. The pejorative term "gold plating" describes best the situation were several signatures on each page of the projects was requested in order for it to be accepted.

This type of procedures create bottlenecks and hinders the process of a better absorption of EU funds. And to not forget that the accreditation of the MA for SI implementation happened in August 2009, which is late and puts a lot of pressure on the actors that have to speed up the process.

According to a Commission report, Romania had big difficulties in establishing the indicator system, "this included a lack of clarity over the definition of the indicators, a lack of coherence between them and the expected outcomes and a lack of quantification of the expected results, which prevented effective monitoring of the progress achieved" (European Commission, 2016, p. 14). The availability of statistical data along with consistent measurement and reporting were among the pressing issues that had to change in Romania especially in the first years of managing SF.

The evaluation activity hasn't been at a good level in Romania, because the number of evaluations performed in the country was low and the recommendations have been too general. As with the lack of trainers that we mentioned earlier, there have been a lack of experienced evaluators that should have measure the results and impact of the projects.

The end-loaded strategy of the programming had led to difficulties in reaching a good level of absorption rate. A high number of interventions had to be processed in a small amount of time, and Romania hasn't been able to co-finance all the projects, losing the chance to attract more money. Because of the weak capacity of institutions to monitor and control all the projects that needed to be implemented in the 2010-2013 period, the infringement procedures have been initiated by the Commission.

Even though SOP T received pre-accession assistance, and should have been more successful in attracting EU funds, it had great difficulties to implement projects, especially due to planning, procurement issues, and coordination in legislation.

In the 2014-2020 period, Romania was obliged to adopt a Transport Master Plan as an ex ante conditionality for the LIOP. Although this is a central objective of NSRF in Romania, the adoption was successively delayed for 2 years, until 2016, thus leading to 0% absorption of EU funds in this sector in the first three years of the period.

It is widely discussed by theoreticians of administrative capacity that a poor institutional setting can determine a poor administrative capacity. In my opinion, this applies to Romania. As I have evidenced above, the institutional structure in this country, when it comes to the implementation of structural funds, is quite heavy, with high bureaucracy and unclear competences; which is not surprising, since Romania is a post-communist country where institutional reforms were not implemented properly, this being a textbook problem for the administrative capacity, as shown by Verheijen (2000).

4.3.3 Unclear competences

For the SOP T there have been many actors deciding for the projects (e.g. department from the Ministry of Transport and Infrastructure, MA, EIB and EC, consultants) and their limited experience had a role in the cooperation process which led to interruptions and delays. For example, these delays in the evaluation process have been of almost 50 working days in the case of the MA and 80 working days in the case of the EC.¹³ Another aspect of the lack of experience has been seen in the quality of the projects prepared by the beneficiaries which caused delays because of various technical problems that they haven't respected.

Another issue related to the organizational structure is the level of allocation of competencies and responsibilities. Here, Romania suffers from a lack of clarity on the roles of MoT and the companies that are subordinated, namely, CFR and CNADNR, which have a critical role in the success of the OP. Because of the overlapping competencies, the responsibilities of the actors involved are unclear and problems aren't solved with a strict plan and specific timetable. In an evaluation report from ACIS, MoT has been

¹³ According to KPMG stats

advised to handle the assembling of strategy and policy preparation and to check its implementation, while CFR and CNADNR to deal with the implementation phase.

As an assessment of administrative capacity, this points to an unclear or largely informal allocation of competencies and responsibilities.

Related to the organizational stability, there have been frequent changes of the two companies' management staff which created delays and change of priorities. This is also related to a deficit in the planning of clear responsibilities between actors involved, because managers from CFR and CNADNR didn't respect the objectives set.

4.4 Conclusion

From the discussions in the analysis chapter, I can state that the last 10 years showed the need for measures and actions dedicated to the development of administrative capacity and institutional management structures and a strategic vision for the future. Romania still has time in the current period, 2014-2020, to put in practice the lessons from the first period, but only if delays in the implementation don't occur anymore.

In relation to the first hypothesis, I can conclude that the political interferences in the *civil service* reforms can become either a great success or the biggest failure of the last 10 years as an EU member. If the management of the staff will be adequately taken care of, the ability to manage and implement projects can raise the efficiency of the EU funds spending. The training of the staff is the foundation on which the administrative capacity of public institutions can be build. Next, a good payment and career system can turn experts to the public administration system and diminish the current high turnover.

Regarding the second hypothesis, I can mention that *political factors* can contribute towards accelerating or slowing down the performance of managing EU funds. It is needed a long-term strategic vision with national plans on all sectors that should be supported no matter who is in charge and the will to address and collaborate with all the actors from regional level for increasing the competitiveness of the country as a whole. There has been presented evidence to show that delimitations between the public administration responsibilities and the political element is essential, as Simona Milio found in her work. Also, Romania couldn't be a more appropriate case to see the bad influence on administrative capacity that political instability in a country can develop.

Concerning the third hypothesis, I assert that Romania managed to establish a number of suitable *institutions*, by making sure that the necessary institutional, legal and procedural framework is in place. However, an essential element that have been seen as a weak spot, namely, the cooperation between these institutions, had caused delays over the entire period. Although the new Ministry of Foreign Affairs was constituted to cooperate and ensure the appropriate functioning of the institutions dealing with SF, it couldn't intervene in the MoT functions *per se*. Also, frequent changes in procedures and mechanisms created bottlenecks and became a burden for both the applicants and the evaluators. Without a coherent and free from corruption legislative framework, it will be almost difficult to manage and implement the SF in an efficient mode.

Even though there have been taken measures to improve the situation, and the absorption rate increased from the 2012 onwards, we are standing in 2017, with a new financial period, having the same difficulties as in the first one, as if nothing happened.

Of course that there are other factors that influenced the absorption rate of EU funds, as well. For example, the vulnerabilities of the Romanian economic construction along with the effects of the international financial crisis have put a great pressure on the state budget.

Although no study has found the perfect answer for the problem of funds absorption, yet, I believe that a very important influence in managing and implementing the SF is given by the administrative capacity of the Romanian state. The idea wasn't only to discuss the negative part of the administrative capacity in Romania, but to bring forward the most pressing issues that hinders the absorption rate.

5 Conclusions

This paper has looked at administrative capacity of Romanian administrative structures and has tried to understand the role it had in the absorption rate of the country. The thesis followed the next research question:

“EU Structural Funds: Why has the absorption rate in Romania been so low?”

To answer the question, three hypothesis have been formulated and their validity have been tested using the concept of administrative capacity which has been presented as a theory that could assess the influence on an EU member state dealing with Structural Funds. Three main elements were used for the analysis chapter, the institutional structure and its correlation with the legislative framework, the human resource management inside the institutions which have a direct impact on the funds due to the nature of their activities, and the administration adaptability to ensure the system and tools necessary for a better absorption rate. Also, political implications in the management of SF have been discussed in relation to administrative capacity as it has been demonstrated the strong connection between these two elements.

Data has been gathered from official documents and reports, and academic literature was used to have a wider perspective on the implications that these elements have on the processes of attracting EU funds, in the transport infrastructure sector that I have chosen. The validity of the hypotheses have been tested in the analysis chapter by combining the empirical data with the elements that affect the administrative capacity. Finally, the results were presented and further discussed also within the theoretical framework established for this paper.

Concerning the problem stated in the introductory chapter, I can assert that administrative capacity had a role in the delay of the programming period 2007-2013, and the implementation of projects. The procedures for managing and implementing the SF are often too long, burdensome and with a low level of staff, both from the number and from qualification perspective, it's difficult to ask for more at this point in time. With a long-term strategic vision, clear and feasible infrastructure projects, this policy can have a lot more success in Romania. With the new General Transport Master Plan things can take a turn for the better, if reforms will be made in key areas, to sustain the implementation of the projects.

At this time, Romania doesn't have a comprehensive system for impact assessment of policies and legislative proposals, which is reflected by the number of investments and projects that have been made but didn't increased the regional competitiveness of the country. The development of administrative capacity should be made also by coordinating local and regional needs through the modernization of public institutions.

Romania's responsibility is to reduce and eliminate the problems that makes structural funds absorption difficult. It's essential to modernize the current system and create specific strategic plans, with deadlines and multi-annual budgets that exceed the political interventions. The legal framework must be established, without the frequent recourse to emergency ordinances that are always changing the rules. Also, a reform for civil servants is required, in order to create structures independent from the political factor, in which people are competent, with clear responsibilities, hired and promoted based on meritocracy and their work is focused only on the projects involving EU funds. Organizing training and

specialization courses/programmes for the staff that deals with these funds is fundamental for reducing the delays that intervene in the policy cycle.

The functioning of the public procurement system generated financial corrections and suspension of payments of EU funds. The legislation suffered numerous modifications, and the institutions involved didn't offer enough support to the stakeholders provoking uncertainty among them. Recommendations of the Commission need to be better implemented.

Corruption in the public procurement area remains a concern and the policies trying to prevent it haven't been able to reduce it significantly. The Commission reviews in the MCV aren't positive, even if 10 years have passed since this process was instituted.

All these changes must be done with the help of all the actors involved in the decision-making process, respecting the principle of partnership.

The final absorption rate is influenced by a lot of factors, some of them almost uncontrollable (financial crisis). There have to be more studies that examine other factors in order to understand the whole dimension of the relationship between them and the impact that they generate.

Some of the factors hindering the absorption of EU SF are deeply rooted in the Romanian administration, as it's the case of political corruption for instance. Such factors cannot be improved as stand-alone, but they require a large scale improvement of the entire system. Therefore, it is not something which can be improved from a programming period to another. On the other hand, there are factors that could be easily improved with some political will and interest.

In my view, there are many facets to each factor influencing the absorption rate and the low rate in Romania is the reflection of a combination of some of the most important ones. In my view, even if a part of the factors identified in this paper as hindering the EU SF absorption would improve, there would be visible improvement at regional level development as well.

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