ADMINISTRATIVE CAPACITY-BUILDING AND EU COHESION POLICY

Paper 1: Literature Review

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EXECUTIVE SUMMARY

Introduction

Over the past decade, an expanding body of research has sought to assess what causes variation in the effective and efficient delivery of the European Union (EU) Cohesion policy across Member States and regions. Research and policy evaluation has concluded that administrative capacity (AC) at national and regional levels is a factor in explaining the variable performance of this policy in Europe. There are, however, definitional and methodological challenges in conceptualising and measuring administrative capacity, and explaining its influence on administrative performance, as well as understanding whether and how administrative capacity can be developed.

This is the first paper produced as part of the EIBURS project on ‘Administrative Capacity-building and EU Cohesion Policy’ which seeks to explain the differences in administrative capacity for implementing Cohesion policy across the EU, and identify how effective administrative capacity for Cohesion policy be built and sustained. The aim of the paper is to provide a review of existing academic and policy literatures on Quality of Government (QoG), administrative capacity and administrative capacity-building in order to:

- review definitions and measures developed in previous studies on administrative capacity in the Cohesion policy domain and assessment of advantages and disadvantages for each indicator used for ranking administrative capacity;
- identify measures for assessing the effectiveness of administrative capacity and capacity-building;
- map existing official and academic datasets on Quality of Government, at national and regional levels, relevant for analysing administrative capacity; and
- map related European studies being conducted from which the project can learn or utilise results.

Quality of Government and Cohesion Policy

The concern with administrative capacity in Cohesion policy is part of a wider debate on good governance. Over the past decade, an expanding body of research has devoted attention to the quality of institutions and their importance for a range of social and economic outcomes. As a consequence, indicators have been developed for measuring, ranking and comparing the quality of government across countries. In the context of Cohesion policy, the relationship between the quality of formal and informal institutions and the effectiveness of EU expenditure on Structural and Cohesion Funds has been increasingly explored. Although these studies provide empirical evidence to show that institutions play a key role in shaping economic performance and the returns of investments across the EU, they leave several questions unanswered. Overall, they do not reveal much about potential bottlenecks in the implementation phase of the policy cycle (micro dimension) or whether specific determinants of the quality of government (macro dimension) are more relevant than others for the successful administration of Cohesion policy. There is a critical need to investigate the way in which the two interact with one another.
Administrative capacity and EU Cohesion policy

Previous research on administrative capacity and administrative capacity-building has demonstrated empirically that poor levels of administrative capacity translate into the inability of countries and regions to benefit fully from Cohesion policy, with serious implications for the social and economic development of a given territory. However, an excessive focus on the absorption capacity of EU Funds, combined with the absence of a specific theoretical framework, has meant that existing literature has not been helpful in explaining how the policy operates in practice at a micro level and how this, in turn, interacts with the macro level (e.g. system-specific institutional constraints). There are still notable gaps in our understanding of how a given set of institutional arrangements and administrative practices translate into ‘good’ or ‘effective’ administrative capacity or the reverse. There is thus a pressing need to develop an appropriate theoretical language suitable for the analysis of the complex, multi-level system of Cohesion policy delivery.

Administrative capacity-building and Cohesion policy

Numerous studies have sought to assess the effectiveness, efficiency and sustainability of administrative capacity-building interventions in the Cohesion policy domain. However, research has mainly focused on ESF-supported interventions, while other key dimensions such as learning (e.g. investing in knowledge and skills, learning from experience and the adaptation of tasks, systems and procedures) or networking (e.g. the conditions under which participation of administrative networks improve or undermine capacity for delivering Cohesion policy) have been neglected. Moreover, investigations have tended to cite examples of good and bad practice in areas such as simplification and standardisation of procedures, rather than systematically defining and analysing how different interventions across Member States and regions contribute to administrative capacity-building. Thus, there is no overall clear idea of what builds administrative capacity and strong institutions for managing Cohesion policy effectively, or whether specific external factors play a role in this process.

Organisational culture, structure and HRM

Approaches proceeding from the fields of organisational culture, structure and human resource management can help provide a better understanding of what constitutes administrative capacity, what factors influence it and the implications for the study of administrative capacity and administrative capacity-building. Indeed, studies on organisational culture have argued that historical, behavioural and functional dimensions, amongst others, play a central role in shaping organisations and might influence organisational effectiveness. Other useful insights proceed from investigations of organisational structure, seeking to identify whether and the extent to which the architecture of an organisation might have an impact on organisational performance. The relationship between motivation and individual performance in public sector organisations or aspects such as high staff turnover and its impact on public administration performance are tackled by the literature on human resource management. Overall these studies show that performance is affected not only by internal factors (structures, HRM, systems and tools), but also by increasingly important external and environmental factors (the influence of culture, cooperation with various business and societal actors, coordination of policy efforts undertaken by external agencies, etc.).
Theorising ACB in the Cohesion policy domain

Studies in fields as diverse as administrative law, organisational studies and human resource management have applied rational choice theories to explain the distinctive features of the administrative process, and specifically the interaction between the various institutional actors and the environment in which they operate. The conceptualisation and models used in these studies can be applied to the study of administrative capacity and administrative capacity-building to gain a better understanding of the choices made by key political actors, their strategic interaction and the way and the extent to which their moves are shaped by the environment in which they operate. This should allow insights into the interplay among the key actors governing Cohesion policy and how this, in turn, may lead to a particular pattern of interactions and outcomes. The models used in these studies (e.g. principal-agent), however, tend to oversimplify interrelations among actors and are, thus, of limited practical value in explaining the real dynamics behind CP implementation. Furthermore, this approach is not conclusive in establishing who, among multiple political principals, assumes a dominant position as far as the relationship with the agent is concerned (see for instance Kerwin, 2003). Applying methods and insights from game theories, the system thinking approach appears to be a more suitable point of departure for the analysis of complex, dynamic and multi-layered entities such as Cohesion policy.

Conclusions

The literature review conducted for this paper has proved particularly useful in showing relevant gaps in the literature. These findings will serve as a basis upon which we will be building on to produce our second paper, in which we will present the relevant research questions, hypothesis and methodology.
1. INTRODUCTION

EU Cohesion policy is under pressure because of perceived problems with its performance. The past two reforms of Cohesion policy in 2005-06 and 2012-13 have been dominated by political and policy debates on the impact and added value of Structural and Cohesion Funds (Bachtler, Mendez and Wishlade, 2013a). Research and policy evaluation over the past decade has concluded that the variable performance of Cohesion policy is partly associated with deficiencies in administrative capacity (AC) and, specifically, problems faced by institutions in the Member States in managing and implementing the Funds in line with the regulatory requirements – strategic planning, multiannual budgeting, project selection and resource allocation, financial management and control, monitoring, reporting and evaluation – and achieving the expected regional development outcomes (Bailey, 2002; Ederveen et al, 2002, 2006; Cappelen et al, 2003; Horvat, 2005; Bachtler and Gorzelak, 2007; Milio, 2007; Barca, 2009; Bachtler et al, 2010; Bachtler, Mendez and Orăze, 2013).

The issue of administrative capacity has become more prominent as a result of EU enlargement and concern about implementation of Cohesion policy in the EU12 (Hughes et al, 2004; Demmke et al, 2006; Bachtler and McMaster, 2008; Bachtler, et al, 2013). However, it is also a factor in explaining the poor economic development performance of parts of the EU15, such as southern Italy (Milio, 2007; Charron, 2013).

1.1 Research questions

In this context, the European Policies Research Centre, and colleagues in the wider School of Government & Public at the University of Strathclyde (Glasgow), as well as EUROREG, University of Warsaw are carrying out a three-year study (2014-17) on administrative capacity-building and EU Cohesion policy, funded by an EIB University Research Scholarship. The main research questions of the study are: what explains the differences in administrative capacity for implementing Cohesion policy across the EU? and how can effective administrative capacity for Cohesion policy be built and sustained?

Specific research questions to be investigated through the research are as follows:

- What constitutes ‘administrative capacity’ for managing and implementing Cohesion policy? How can it be defined and measured? How relevant are different measures? What are the advantages and disadvantages of each indicator used for ranking administrative capacity?

- How does administrative capacity vary across the EU? To what extent is this explained by differences in context, structural, resources, systems or processes? What is the relationship between these capacity factors? What are the determinants of administrative capacity e.g. factors like culture, openness, partnership, learning, sanctions/reward systems?

- To what extent do differences in administrative capacity reflect the QoG more generally of the country (and region) concerned? Does regional administrative capacity matter more than national capacity? What specific capacity factors explain differences between national/regional rankings of QoG and their administrative capacity for implementing Cohesion policy?
What builds administrative capacity and strong institutions for managing Cohesion policy effectively? What capacity structuring and development factors make a difference? What influence do external factors – and specifically networks with other programmes – play in improving administrative capacity?

What are the policy implications? How could Cohesion policy enhance administrative capacity? To what extent do the results have implications for the design of programmes (e.g. size, architecture, priorities etc), the implementation arrangements (e.g. implementing bodies, type of Beneficiaries?) or the administrative processes put in place? What are the implications for implementation of Cohesion policy in the second half of the 2014-20 period? What are the implications for the post-2020 regulatory framework (e.g. conditionalities, requirements for institutional capacity-building etc).

1.2 Structure of this paper

This paper is the first output of the study and comprises a literature review on good governance, administrative capacity and administrative capacity-building. On the one hand, this exercise is intended to take stock of existing knowledge and identify gaps in the literature; on the other hand, it provides a foundation for the development of the study’s hypotheses, research questions and methodology, which will be addressed by in a separate paper. The approach of the paper is linked to the theoretical framework chosen for the research, which seeks to understand the way in which key institutional actors interact with one another, the rationale behind strategic choices and the way in which, in turn, the environmental landscape in which they operate shapes choices and trade-offs. The framework is intended to help us develop an operational definition of AC, frame and position our research within a broader literature and provide the basis for developing theoretically informed hypotheses.

The paper has involved three sets of tasks:

- a review of definitions and measures developed in previous studies on administrative capacity and administrative capacity-building in the Cohesion policy domain and assessment of advantages and disadvantages of the indicators used for ranking administrative capacity. A glossary of the most consolidated definitions provided by international organisations (IOs) and scholars is summarised in Annex 1 of this report;
- the mapping of existing official and academic datasets on Quality of Government (QoG), at national and regional levels, relevant for analysing administrative capacity; and
- the mapping of related European studies being conducted from which the project can learn or utilise results.

The research for this paper has involved taking stock of academic and policy literature at the macro level, involving a review of the literature on good governance, with a view to gaining a deeper understanding of how the institutional environment may influence the effective and efficient management and delivery of Cohesion policy (CP). It also encompassed literature research at the micro level, covering studies on administrative capacity and administrative capacity-building (ACB), in order to understand how AC has been defined and measured, and what types of interventions have been identified as most suitable to strengthen administrative and institutional capacity at national, regional and local levels.
Following this introduction, the paper comprises six further sections:

- **Quality of Government and EU Cohesion Policy.** Section 2 introduces the body of research on good governance and provides an overview of the relevant definitions and measures developed. It then goes on to deal with investigations exploring the relationship between QoG and CP. We conclude that, although these studies help us gain a better understanding of how the quality of institutions matter for a range of social and economic outcomes, they only tell us half the story. Specifically, these investigations offer limited insight into how administrative processes operate within the politico-administrative relationship, and provide insufficient evidence on which particular aspects of QoG are relevant for Cohesion policy. To fill this gap, Section 2 moves on to explore the international literature on aid effectiveness. This section presents specific attributes of governance deemed relevant for successful absorption and use of economic development aid funds.

- **Administrative capacity and EU Cohesion Policy.** Section 3 presents the literature on AC in the Cohesion policy. Following a preliminary overview of the context within which AC has gained relevance at the EU level, it moves on to explore the academic and policy literatures in this field. In particular, it critically reviews the measures and definitions used in different studies, as well as the advantages and disadvantages of each indicator selected for ranking AC. We argue that the definitions and measures developed do not fully capture the concept.

- **Administrative capacity-building and EU Cohesion policy.** Section 4 provides an overview of the EU approach to ACB, specifically measures undertaken so far to address bottlenecks in public administrations responsible for implementing the Funds. This includes a review of the relevant policy literature, mainly evaluations seeking to assess the sustainability, effectiveness and efficiency of ACB interventions. As noted in more detail below, this research concludes that ACB interventions (mostly ESF-supported) are limited in their ability to address contextual/systemic problems.

- **Learning from organisational and human resource management research.** Developing the argument from the review of ACB literature, Section 5 considers what the lessons are from other disciplines, specifically organisational and HRM research for the relationship between the exogenous and endogenous dimensions of administrative capacity.

- **A theoretical framework for the study of ACB in the Cohesion policy domain.** Complementing the previous section, Section 6 discusses the way in which different studies have applied rational choice theories to explain the distinctive features of the administrative process as well as the way in which actors within the bureaucracy operate. It then moves on to present system-thinking theories and explains its added value in capturing the dynamic, complex and multi-layered reality of Cohesion policy.

**Conclusions.** Section 7 finally provides a summary of the literature review, focusing particularly on gaps in the literature explored and the implications for the EIBURS study.
2. QUALITY OF GOVERNMENT AND EU COHESION POLICY

The first task for this paper is to explore the topic of Quality of Governance (QoG) and its implications for the administrative capacity for managing and delivering Cohesion policy. Studies on QoG have emphasised the importance of formal and informal institutions in shaping the economic performance of individual countries and regions, and the returns on European public investment across the EU. Supported by increasing empirical evidence, a growing consensus has emerged among scholars, policymakers and practitioners that ‘good governance’ is a key factor for sustainable social and economic development (Kaufmann and Kraay, 2008; Dijkstra, 2013; Rothstein, 2013). However, these studies do not necessarily tell us much about how strengths or weaknesses in QoG influence the conditions for particular types of spending or the effectiveness of certain policies. Specifically, it is unclear whether specific determinants of QoG are more relevant than others for the successful management and implementation of Cohesion policy, and why. The literature on international development aid can help us fill this gap. In fact, empirical research on aid effectiveness identifies and isolates key attributes of governance such as the rule of law, accountability and transparency, which are deemed relevant for successful absorption and use of aid funds by developing countries.

This section provides an overview of the literature on Quality of Government and discusses why this concept is relevant for Cohesion policy. It begins with an overview of the evolution of research on QoG and then examines the principal definitions and measures used for analysing QoG. It then explores empirical work relating to QoG and its relevance for EU Cohesion policy, and discusses the main limitations of these studies. Drawing on the literature on aid effectiveness, it then presents key governance dimensions deemed relevant to make effective use of aid resources by recipient countries. This section concludes by identifying the types of intervention for enhancing AC common among IOs.

2.1 “Good Governance” or “Quality of Government” – background

Research addressing concepts such as good governance or quality of government has expanded significantly in recent years, with numerous cross-national studies assessing the role played by institutions in relation to economic and social development.

The intellectual background behind the rise of the good governance and QoG agenda is generally associated with the so-called “institutional turn” in the social sciences (Clemens and Cook, 1999; Amin, 1999; Jupile and Caporaso; Rothstein, 2013), which gained momentum in the mid-1990s after the publication of three major works by neo-institutionalist scholars which had a profound impact on the importance of institutions (March and Olsen, 1989; North 1990; Ostrom, 1990). This marked the beginning of a new generation of research that challenged the then-dominant view in the social sciences, which saw societal variables as key in explaining political, social and economic outcomes. These scholars argued that different types of institutions not only create the rules of the game by which economic activities are governed, but also constrain or empower individuals, thereby making institutions essential determinants for social and economic outcomes in any given territory (Hodgson, 2009; Pose and Garcilazo, 2013; Rothstein, 2013). This argument received strong support across all areas of the social sciences. Geographers (e.g. Amin and Thrift:1994; Amin:1999), political scientists (e.g. Putnam:1993; 2000) and economists (North:1990; Acemoglu et al;2001; Rodrik et al:2004), delved into how institutions shape and determine social and economic development, concluding that
the extent of a society’s economic and social development is to a large extent determined by the character of a society’s political institutions.

Within this context, an expanding body of literature has addressed the issue of good governance and QoG in relation to growth and development. Indeed, at first, these concepts have received most attention in policy circles dealing with developing and transition countries, seeking to assess the effectiveness of development aid on growth (e.g. Knack and Keefer, 1995; Mauro, 1995; Alesina, 1998; Dollar, 2000; Ederven, 2006). These studies have found that aid is at best conditionally effective: among relatively poor countries, only those that develop good institutions are positively affected by aid. Good governance has also been associated with a number of important non-economic phenomena. For example, scholars have empirically showed that the existence of high levels of QoG, measured using different proxies (such as rule of law, government effectiveness, and control of corruption), tend to reduce income inequality and poverty (e.g. Gupta, Davoodi and Alonso-teme, 2002), foster a country’s aggregate level of education and health (Mauro, 1998; Gupta, Davoodi and Alonso-teme, 2002), happiness (Heliwell, 2003), citizens’ support for government (Anderson and Tverdora, 2003; Gilley, 2006; Levi and Sacks, 2009) and, in general, the consolidation of democratic institutions (Rose and Shin, 2001; Zakaria, 2003). In summary, there appears to be a widespread agreement, supported by empirical investigation, that institutions with higher levels of QoG have a strong positive impact on a large set of outcomes related to both economic growth and human well-being. As we shall see in the following section, less agreement is to be found as far as the definition and measures of good governance or QoG are concerned.

2.2 “Good Governance” or “Quality of Government” – Definitions

Despite the fact that QoG and similar concepts have been immensely popular, there is no consensus on how the term should be defined (Grindle, 2007; Rothstein and Teorell, 2008a; Agnafors, 2013). Economists have tended to narrow the concept of good governance by defining it as “good-for-economic-development” (e.g. La Porta et al., 1999). This approach identifies and measures good governance through indicators related to economic development (e.g. the security of property rights). This kind of definition has nevertheless been considered unsatisfactory, particularly because many important non-economic attributes of good governance, such as trust and subjective measures of well-being, are left out. In addition, critics have argued that this approach suffers from a “functionalist slant”: one cannot define a country’s level of QoG without first measuring its effects (Rothstein and Teorell, 2008). Other scholars have defined good governance rather narrowly, identifying it, for example, in terms of the “absence of corruption” (e.g. Mauro, 1995; Rose-Ackerman, 1998; Mungiu-Pippidi, 2006). Critics of this approach have argued that, while a high level of corruption is an antithesis to good governance, the latter goes well beyond the mere absence of corruption (Rose-Ackerman, 2004; Rothstein and Teorell, 2008).

Rothstein and Teorell (2008), have used the term “quality of government”, instead of “good governance”, linking the latter to the concept of impartial government institutions. This is defined in the following way: “When implementing laws and policies, government officials shall not take anything about the citizen or case into consideration that is not beforehand stipulated in the policy or the law” (Rothstein, 2013:28). These and other scholars have stressed that QoG does not equal democracy
as the latter, which concerns the access to government power, is a necessary but insufficient criterion of QoG\(^1\).

The most frequently used definition of governance in the scholarship is the one developed by Kaufmann, Kray and Mastruzzi, through which they normatively define governance as: “The process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kaufmann, Kraay and Mastruzzi, 2004). This definition distinguishes the following dimensions of good governance (see Table 1): elements that concern the access to authority, namely voice and accountability and political stability; and elements that concern the exercise of authority, namely government effectiveness, regulatory quality, rule of law and control of corruption (Kaufmann, Kraay and Mastruzzi, 2010).

Table 1: WGI - Dimensions of Governance

<table>
<thead>
<tr>
<th>Dimensions of Governance</th>
<th>Definition/Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice and Accountability</td>
<td>Perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.</td>
</tr>
<tr>
<td>Political Stability and Absence</td>
<td>Perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism.</td>
</tr>
<tr>
<td>of Violence</td>
<td></td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>Perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>Perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>Perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>Perceptions of the extent to which public power is exercised for private gains, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests.</td>
</tr>
</tbody>
</table>


This definition has been widely used within the literature. Nevertheless, three major flaws have been identified: (i) it is too broad; (ii) it overlaps with the more general definition of democracy; and (iii) it does not draw a clear-cut separation between issues that concern the access to power and those that are related to the exercise of power (Rothstein and Teorell, 2008; Rothstein, 2013, Agnafors, 2013). This has led one critic to argue: “if the study of governance extends to all questions related to how groups of people govern themselves (…), then there are few subjects in all of political science and political economy that do not fall within the governance domain” (Keefer, 2004:68). More succinctly, Rothstein and Teorell (2008) have underlined: “if QoG is everything, then maybe it is nothing”.

2.3 “Good Governance” or “Quality of Government” – Measures

Among academics and practitioners there is still much debate regarding what should be measured to capture QoG appropriately. Overall, there appears to be a high degree of consensus in the field of comparative politics and development economics that the latter can be disaggregated into the following dimensions of governance:

\(^1\) Rothstein (2013) gives the example of corruption in newly democratised countries or the case of Singapore and Hong Kong which, despite not being classified as democracies, are two states that have made the greatest progress in curbing corruption over the last few decades.
i) Corruption
ii) Bureaucratic effectiveness
iii) Rule of law
iv) Government voice and accountability or strength of democratic and electoral institutions.

These categories have mostly been aimed at capturing the performance in the public sector. As Table 2 shows, there are several QoG indicators available for EU countries.

### Table 2: Examples of leading measures of QoG for EU countries

<table>
<thead>
<tr>
<th>Data source</th>
<th>Type of evaluation</th>
<th>EU coverage</th>
<th>Type of QoG concepts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. WGI</td>
<td>Composite index</td>
<td>All</td>
<td>Corruption, rule of law, political stability, bureaucratic effectiveness</td>
</tr>
<tr>
<td>2. Transparency International</td>
<td>Composite index</td>
<td>All</td>
<td>Corruption</td>
</tr>
<tr>
<td>3. World Values Survey (WVS)</td>
<td>Household survey</td>
<td>All</td>
<td>Public Trust, confidence in public services, corruption</td>
</tr>
<tr>
<td>4. World Economic Forum</td>
<td>Firm survey</td>
<td>All</td>
<td>Bureaucratic effectiveness, corruption</td>
</tr>
<tr>
<td>6. Freedom House: Nations in Transit</td>
<td>Expert Assessment</td>
<td>NMS only</td>
<td>Corruption, rule of law, governance, civil society</td>
</tr>
<tr>
<td>7. Freedom House</td>
<td>Expert Assessment</td>
<td>All</td>
<td>Political rights, civil liberties, rule of law, corruption</td>
</tr>
<tr>
<td>8. Polity</td>
<td>Expert Assessment</td>
<td>All</td>
<td>Democracy, political stability</td>
</tr>
</tbody>
</table>

Source: Charron et al.(2013)

In fact, some International Organisations (IOs) and, most prominently, the World Bank, have played a leading role both in the use and in the supply of governance indicators. The most popular are perception-based composite indicators, which summarise a large amount of data and are available for a significant number of countries (Arendt and Oman, 2008). The World Governance Indicators (WGI), produced since 1996 by Daniel Kaufmann and his team at the World Bank, are among the most widely used indicators to measure governance. However, researchers have found significant problems in their construction; in particular, the following shortcomings have been underlined: (i) lack of comparability over time, (ii) transparency; (iii) actionability; (iv) absence of an underlying theory of good governance; and (v) hidden biases2 (Arndt and Oman, 2008). Furthermore, although a proliferation of quality of government data for national estimates has emerged, quantitative studies of governance at the sub-national level for EU MS are lacking.

For Europe, there is now the European Quality of Government Index (EQI), based on survey data on corruption and governance at the regional level conducted in 2010, and then again in 2013 (Charron et al, 2012). Charron et al (2010; 2013) were the first to map out regional QoG in the EU. This has been done first at the national level, with the development of a comprehensive review of the leading indicators for QoG, their methods of construction, as well as the strengths and weaknesses of contemporary data. After weighting the trade-offs in all approaches, evaluating the data based on its

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2 For a more exhaustive discussion on the limitations of the WGI, see Arndt and Oman (2006).
internal and external strength\(^3\), these authors have concluded that the WGIs are the most appropriate ones among all other variables\(^4\).

Charron et al (2013) found that, although QoG is on average higher for EU MS as compared to other world regions, there is significant variation among countries in the EU. Following the WGIs data, these scholars have used cluster analysis to assess the national level of variance in QoG across the EU, and as a tool to identify MS that share common challenges in this field at the national level.

What emerged is that there appear to be four different clusters in Europe. The first one includes top performers, mostly from Northern EU countries in Scandinavia, the UK, Ireland, the Netherlands and the Germanic countries. The second consists mostly of Southern European countries, with the addition of two Eastern European countries, namely Estonia and Slovenia. The third includes mostly EU10 Member States in Central and Eastern Europe, Cyprus and Malta and, significantly, two Western European countries, Italy and Greece. The fourth consists of Bulgaria and Romania, with the lowest levels of QoG across all four pillars.

As far as the sub-national level is concerned, the data covers all 28 Member States and focuses on both perceptions and experiences with public sector corruption; along with the extent to which citizens believe various public sector services are impartially allocated and of good quality\(^5\). The study found that the level of QoG varies widely within some MS, and that country-level data becomes meaningless for some of them, precisely because it glosses over regional variation. As Figure 1 shows, some Member States (particularly Italy, Belgium and Spain) show a high degree of variation in several of their regions, while others (e.g. Denmark, Slovakia, Poland and Austria) display little or no within-country variation in QoG.

These studies are particularly relevant as they present empirical evidence to show that the functioning of formal institutions varies considerably from country to country and even within countries in Europe. In particular, although upon accession new Member States have to adopt the acquis communautaire which, from an institutional perspective, implies democracy, the rule of law, respect for human rights, protections of minorities and a functioning market economy, some countries in the EU still exhibit significant problems as far as these dimensions are concerned.

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\(^3\) As far as the “internal strength” is concerned, the following have been evaluated: conceptual relevance, clarity and replicability, robustness of rankings. While, the “external strength” includes: time availability, external validity of the data, coverage of multiple concepts of QoG by one source. For more details Charron et al (2013).

\(^4\) This choice has been justified on the basis of five main considerations: 1) cover of all four pillars of QoG; 2) cover all EU countries for at least 10 years; 3) indicators are transparent and a clear description of the conceptual meaning of each concept as well of the methodology used to create each variable is provided; 3)broad theoretical scope of each QoG concept; 4) creation of a composite indicator with data from a wide range of sources; 5) data are robust to alternative specifications.

\(^5\) For more info please see: Charron et al (2014) and Charron et al (2013)
2.4 QoG – why is it relevant in the context of EU Cohesion policy?

As noted, there is a growing agreement that the quality of institutions matters for the efficiency in the delivery of public policies and, consequently, for economic and social development. The underlying theory is that problems such as corruption, rent-seeking or clientelism, lead to imperfectly functioning markets as well as to institutional and government failures which, in turn, reduce the capacity of governments to adequately design and efficiently deliver public goods and policies. The importance of high-quality institutions for economic and social development has also been emphasized in key reports at the EU level; these point out how poor institutions can hinder the effectiveness of regional development strategies. Accordingly, an emerging body of literature has devoted attention to the impact of QoG on the returns of investments of EU Structural and Investment Funds. For instance, Ederveen et al. (2006) have conducted a country-level analysis to determine whether the Funds are effective, and what are the conditions that might affect the latter aspect. This analysis shows that the Funds are, at best, conditionally effective: economies with good institutional quality benefit from the Funds, whereas those with poor institutions have lower growth performance. As far as the regional level is concerned, the empirical literature relating to this topic has gradually expanded, following the publication of the European Quality of Government Index (EQI).

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6 For example, see the EU’s Fifth and Sixth Cohesion Report, where it is underlined that “poor institutions can, in particular, hinder the effectiveness of regional development strategies” (EU, 2010, p. 65).
7 In other words, these investigations explore the relationship between the effectiveness of investments and the institutional quality of the recipient country.
8 Ederveen et al. (2006) perform a cross-country panel data analysis. The data cover 13 EU Member States, while the panel data set cover seven five-year period, namely from 1960-65 through 1990-95.
9 In this study, the quality of institutions is proxied by several quantitative measures, including corruption, inflation and openness. Ederveen et al. (2006) use the Institutional Quality Index developed by Sachs and Warner (1995).
In an analysis covering 158 EU regions in the 2000-2006 programme period, Filippetti and Reggi (2012), examined the extent to which regional governments contribute to making Cohesion policy more effective by looking at their quality and degree of political decentralisation. The study concludes that regional governments play a significant role in affecting the impact of Structural Funds’ expenditure on economic performance.

Similarly, Rodriguez-Pose and Garcilazo (2013) have combined data on the investment undertaken by the EU in regions targeted by the Funds, with data on QoG, to assess whether and to what extent the QoG in a given region mediates the returns of European investments, and whether these effects change beyond a given threshold of Cohesion expenditure. They found that QoG makes a difference to regional economic growth; specifically, for regions receiving a considerable amount of funds and sharing a similar level of QoG, greater expenditure does not translate into greater economic growth unless the QoG of a given region is enhanced. Analysing the variation in the level of ERDF absorption performance of 25 Member States at the end of the programming period in 2008, Tosun (2014) concluded that administrative capacity, measured through the World Governance Indicator, is the strongest explanatory variable. Becker et al (2011) use QoG indicators to assess whether Objective 1 regional absorption capacity, measured in terms of human capital and quality of government, matters for growth performance. They show that these two dimensions have a significant impact on turning EU transfers into economic growth.

The empirical evidence outlined above demonstrates that the quality of institutional structures is a vital factor for economic and social development. In particular, institutional quality seems to play a key role in determining the capacity to transform investment into economic activity and development; thus implying that, to some extent, the quality of government mediates returns on public policy. Moreover, the above investigations have pointed out that, if development policies are to be successful, they should build in an institutional component, including transparency, accountability and anti-corruption measures, with a view to improve the QoG and as an essential part of the strategic planning process (Ederveen et al, 2006; Rodriguez-Pose and Garcilazo, 2013).

Nevertheless, many important questions that are relevant for our investigation are left unanswered. Notably, the bulk of these studies have primarily focused on outcomes - measured in terms of economic growth or the level of absorption of structural fund- with the result that we do not know much about if and/or to what extent the quality of government possessed at the national/regional level influences the administration of Cohesion policy. Although it is evident that this might occur, through factors such as bureaucratic efficiency or low level of corruption, existing research does not offer systematic empirical evidence of this; nor is it clear whether specific aspects of QoG are more relevant than others for the successful management and implementation of this policy. If it is true that QoG (or one or more of its dimensions) does influence the administration of Cohesion policy, then we must identify these dimensions and understand how they affect the administration of this policy, as a preliminary first step in proposing potential future interventions that can address existing bottlenecks.

As noted by Altmann (2010), QoG indicators only measure governance outcomes and macro political and administrative system features of a country. In other words, they do not give any information on the context-specific political and legal arrangements that bring them about. Consequently, little

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10 To measure the quality of government at the regional level, Filippetti and Reggi (2012) employ the indicators developed by the QoG Institute (2010).
guidance is given on how to improve the attributes of governance that are captured by these indicators.

In the absence of empirical research on this in the Cohesion policy domain, we take a broader perspective and look at the international literature on development aid. Ex-post evaluation reports by development institutions identify key country-specific institutional obstacles to successful absorption and use of aid by developing countries. Although the bulk of these studies focus on developing non-EU countries, empirical evidence in this field can nonetheless potentially offer valuable insights into specific attributes of governance deemed relevant for successful absorption and use of economic development funds.

2.5 QoG – lessons from literature on development aid

Good governance has received most attention in circles dealing with developing countries as well as the so-called “transition” countries (Smith, 2007). As noted by Rothstein (2013), the growing interest in this field can be understood as a reaction to the many “facts on the ground”, showing that establishing free and fair elections and representative democracy does not necessarily guarantee that a poor country will be able to improve the economic and social conditions for its population. Furthermore, there has been increasing recognition, supported by empirical evidence, that aid channelled to governments implementing ineffective policies is wasteful (Kaufmann, 2009).

Evaluations conducted by international organisations show empirically that aid effectiveness has often been undermined by recipient countries’ deficiencies in administrative and management capacity as well as by the continued existence of negative contextual factors. As a result a debate about sequencing of public sector and management reform has emerged (Rothstein, 2013). The central topic is that the enhancement of institutional quality is the key to enable recipient countries’ to implement reforms and make the best possible use of foreign assistance (IMF, 2002).

In this context, over the past two decades the concept of "capacity-building" has acquired increased prominence in the area of international cooperation. The underlying rationale being that governments, donors and implementing agencies increasingly seek to realise more sustainable impacts from development assistance (CHF, 2007). The late 1990s marked the increased recognition by international bodies such as the World Bank, IMF and the OECD that economic policy reforms will not be effective if not accompanied by efforts to improve a country’s institutional environment (Altmann, 2010).

However, administrative capacity-building as an international activity is not new. Table 3 provides a snapshot of the main definitions and interpretations that, over the course of the last fifty years, have accompanied the evolution of the concept of capacity building within the international practices of development aid.

As noted in a UN report (1998) contributions to capacity-building have been going on for centuries in fields as diverse as architecture, education and science. This reinforces the idea of the important role of the quality of state institutions in the process of economic growth and development.
Table 3: Evolution of the term “capacity-building” and associated concepts

<table>
<thead>
<tr>
<th>Term</th>
<th>Emergence as development theme</th>
<th>Associated meaning</th>
</tr>
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<tbody>
<tr>
<td>Institution-building</td>
<td>1950s and 1960s</td>
<td>• Equip developing countries with basic set of public sector institutions required to manage public investments’ programmes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Focus on design/functioning of organisations. The broader environment was not taken into account</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Models were imported from developed countries</td>
</tr>
<tr>
<td>Institutional development</td>
<td>1960s and 1970s</td>
<td>• Shift from institution-building to institution strengthening</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Focus still on individual organisations, not broader environment or sector</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tools acquired prominence as a way to improve performance</td>
</tr>
<tr>
<td>Development management/administration</td>
<td>1970s</td>
<td>• Objective was to special public/target groups previously neglected</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Focus on delivery systems of public programmes as well as government’s capacity to reach target groups</td>
</tr>
<tr>
<td>Human resource development</td>
<td>1970s, 1980s</td>
<td>• Emergence of people-centred development</td>
</tr>
<tr>
<td>New institutionalism</td>
<td>1980s, 1990s</td>
<td>• Broader focus to include NGOs, private, including networks and external environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Attention to shaping national economic behaviour</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Emergence of preoccupation with “sustainability”, away from focus on projects</td>
</tr>
<tr>
<td>Capacity development</td>
<td>Late 1980s and 1990s</td>
<td>• Importance of ownership and process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Re-assessment of the notion of technical cooperation</td>
</tr>
</tbody>
</table>


Table 3 summaries a general trend among international organisations and donors to prefer long-term and horizontal measures of AC as well as an emerging focus on democratic mechanisms of policy representation aimed at increasing citizens’ participation and political and bureaucratic accountability. Because policy making, service delivery, oversight and accountability as the economic functions of the public sector are spread and intertwist in each policy sector, the World Bank has acknowledged that institution capacity-building should cut across all sectors of the public administration (see the Annex, for an overview of lessons learnt from these ACB interventions). Through systematic and integrated measure of institutional and administration capacity-building, it would be possible to avoid fragmented interventions, shorter-term emphasis on policy change and direct provision of output (World Bank 2000). Examples of this new institution-building approach are (World Bank 2000: xii):

- technical assistance to countries in order effective budgeting and expenditure management systems, rather than advise on the content of annual budget allocations;
- support for establishing a long-term employment and career incentives, rather than focusing on civil service layoffs;
- technical know-how for establishing competition between public and private actors in public procurement, rather than direct supply of physical infrastructure or services.

International organisations also provide knowledge and research on determinants and conditions for enhancing institutional and public management quality and, in turn, increase the effectiveness of economic development aid. Empirical work conducted by international financial institutions (IFIs) on aid effectiveness have identified the main bottlenecks in its absorption and use by developing countries. There is a general agreement among IFIs that the extent to which aid is successful varies
considerably depending on the area in which aid is channelled. Capacity-building efforts are strongly influenced by local institutional and political variables. In particular, ex-post evaluation reports on ACB technical assistance (TA) consistently mention political will and the quality of civil service as being a necessary condition for a successful TA. For example, an IMF report remarked on the adverse impact of low wages in the public sector, as compared to the private one, on the quality, reliability, motivation, and stability of civil servants has been identified as being a major impediment to aid effectiveness. Rather than temporary and discontinued incentives (which drop personnel motivation and increase personnel turnover), a higher remuneration scale allows to hire, retain and train staff. Remuneration scales should be combined with reward systems that help support a performance-oriented culture (IMF YEAR, p.167). In a similar vein, a 2004 OECD (2004, p. 24) study stresses the importance of meritocratic recruitment, competitive salaries, and internal promotion and career stability as preconditions for a successful and lasting ACB interventions.

Other valuable lessons can be derived from activities carried out by the World Bank in this field. The Bank has identified governmental capability (or lack thereof) as a major obstacle to long-term growth and poverty reduction, thereby increasing its support to improve the institutional capability of borrowers. Accordingly, support for public sector governance has increased considerably over the years (IEG 2008). Funding operations and analytical work are geared towards improving capacity of recipient countries in both specific projects and sectors financed by the Bank as well as in the overall management of government functions. The rationale behind channelling funds into these projects rests on the belief that the quality of the public sector – accountability, effectiveness, efficiency in service delivery, and transparency-contributes to long-term growth and poverty reduction (IEG, 2008).

The Bank’s lending and advisory support addresses four main areas, namely public financial management, civil service and administration, revenue administration and anticorruption and transparency. These interventions aim at changing the political, cultural, and institutional factors are identified as being the key for developing successful economic development measures. For instance, the adoption of anticorruption laws and commissions are rarely effective if there is the lack of necessary support from political elites and the judicial system. Accordingly, indirect but more systemic measures against bureaucratic corruption- reducing opportunities for corruption by simplifying procedures and regulations, switching to e-government in various areas, and rationalising personnel management, are now considered more effective reforms.

Overall, the experience and practices of international organisations can be summarised as giving increased attention to horizontal administrative capacities rather than policy or sector specific administrative capacities, and 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. This emphasis on horizontal interventions reflects the view that economic development interventions are not isolated from the incentives of politicians and bureaucrats. Other major initiatives of international organisations such as the World Bank concern the quality of public service delivering, including the judicial system, the quality of public financial management and the decision process of budget policy, internal and external auditing system, and the transparency and citizens’ participation.

After having outlined the experiences of IOs with broader interventions for enhancing administrative capacity and institutional quality, the next section moves on to explore in more detail the literature on administrative capacity in the EU Cohesion policy domain.
3. ADMINISTRATIVE CAPACITY AND EU COHESION POLICY

This section provides an overview of the literature on administrative capacity in the Cohesion policy domain. In particular, we present the measures and definitions produced by experts, as well as the advantages and disadvantages of each indicator selected for ranking administrative capacity. The purpose of this exercise is to review how this concept has been defined and measured within the literature and highlight relevant gaps. As noted in detail below, earlier studies have focused excessively on whether Structural Funds money is being spent; this has led to a conceptual overlap between administrative and absorption capacity. Recent investigations have been more successful in providing a broader definition of AC as well as a more refined set of policy-relevant indicators. Nevertheless, the absence of a specific theoretical framework has meant that previous work in this field has not always been helpful in explaining how the policy operates in practice at a micro level (e.g. the strategic choices that actors make concerning public policy) and how the latter interacts with the macro level (e.g. system-specific institutional constraints).

The following section begins with an overview of the context for AC in Europe, followed by a review of empirical studies and lastly the gaps in knowledge and their implications for the study.

3.1 Administrative capacity and EU Cohesion policy – background

The interest in administrative capacity for Cohesion policy has emerged over the past 10-15 years, driven primarily by its importance as a criterion for Candidate Countries preparing to join the EU. The adequacy of sectoral administrative capacities to apply the *acquis* has always been part of the assessment of applicant countries, while the assessment of general (or horizontal) capacities became an important issue in relation to CEEs, in the wake of their accession applications to the EU (Verheijen, 2000; 2007; Dimitrova, 2002).

Taking a longer term view, three main factors can explain the increasing importance attached to meeting AC requirements. First, the rapid progress in the development of the EU after the first (Greece) and second (Spain and Portugal) Mediterranean enlargements led to a revision of the Treaties of the European Communities. This process culminated in 1988 with the Single European Act (SEA), which helped to break the decision-making deadlock that had paralysed the European Communities for almost two decades, and created the conditions for the completion of the Internal Market. In particular, the completion of the latter made adequate administrative capacities, so as to be able to function in the EU, an important requirement due to the preoccupation that a great disparity between the Member States in terms of AC could lead to a distortion in the functioning of the Single Market (Moxon-Brown, 2000; Verheijen, 2000).

A second factor explaining the increased interest in adequacy of AC as an EU membership requirement is the change in attitude in the European Commission, following the appointment of Jacques Santer as Commission president. The Commission started devoting more attention to “performance indicators”, whereby policies became more geared toward bringing about a better

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12 With the appointment of Jacques Santer as Commission President in 1995, more attention was devoted to the performance of the EU as a political system. In particular, league tables of Member States were published regularly, listing the extent to which they met their membership obligations, thus exposing significant gaps in performance of national administrations.
performance of the EU as a political system, rather than toward extending the powers and competencies of the Union \textit{vis-à-vis} the Member States (Baker, 2002).

Third, the direct experience of the EU working with the Candidate Countries of Central and Eastern Europe gave rise to questions about their level of administrative capacities. Problems experienced by this group of countries in relation to disbursement and absorption capacity demonstrated with the PHARE programme raised concerns about their administrative preparedness.\textsuperscript{13}

Despite the lack of general EU legislation applicable in the domains of public administration and governance, along with the disparate administrative arrangements of Member States (Olsen, 2003), several references to AC requirements have been made over the past two decades, notably in European Council statements and in Commission reports.

Administrative capacity has been linked to the eligibility criteria first implicitly, at Copenhagen in 1993\textsuperscript{14}, and then explicitly in the conclusions of the Madrid European Council in 1995\textsuperscript{15} 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”\textsuperscript{16} the same year. Here, adequate AC, as an explicit membership criterion, was mentioned for the first time as well as references to the need for associated countries to adapt their administrative machinery and their societies to the conditions necessary to make harmonised legislation work (Moxon-Browne, 2000).

Nevertheless, it was only with the release of the Commission Opinions (1997) and, particularly, with the Commission Progress Report (1999), that a step forward in the definition of minimum standards for horizontal administrative capacities (e.g. policy-making and coordination, civil service and administrative law, public expenditure management, internal financial control system, public procurement, external audit) took place. The main issues referred to in the Opinions and Progress reports in relation to the quality of the public administrations included:

- the development of an impartial and professional administration;
- the development of a training system;
- adequate policy development and policy coordination capacities;
- an effective accountability system, with particular emphasis on the system of Internal and External Control;

\textsuperscript{13} For further details on problems experienced by CEE countries with the implementation of the PHARE programme in the areas of Public Administration and European Integration/Law Approximation, see the evaluation reports commissioned by the Joint Relex Service of the European Commission published in 1999.

\textsuperscript{14} In the Copenhagen European Council summit the reference to AC was mainly oblique, the emphasis being on the necessity for Candidate Countries to develop democratic systems of governance, the creation of a working market economy, capacity to absorb/apply the \textit{acquis}. For more information see: “European Council in Copenhagen, 21-22 June 1993, Conclusions of the Presidency”. Pp. 1-45. Available on-line at the following link: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/72921.pdf

\textsuperscript{15} The Madrid European Council called for the need to make sound preparation for enlargement on the basis of the criteria established in Copenhagen and in the context of the pre-accession strategy defined in Essen for the CEEs. To create the conditions for the gradual, harmonious integration of those states, the strategy needed to be intensified through the development of the market economy, the creation of a stable economic and monetary environment and the adjustment of their administrative structures.

\textsuperscript{16} For further detail, see: “White Paper on the Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union”. Brussels, 03/05/1995. COM (95) 163 Final.
• the extent to which special structures and procedures were in place to manage EU affairs.\textsuperscript{17}

It is important to note that most of the elements listed above on the quality of European public administrations have also been identified by other international organisations as being essential to improve the AC needed for economic development. Evidence of this can be found in the SIGMA (Support for Improvement in Governance and Management) baseline assessment which provided a definition of the minimum standards for horizontal administrative capacities required to function effectively in the EU’s political-administrative system. Table 3 lists the baseline issues for horizontal administrative capacity assessment, as identified in the Commission Progress Report.

Table 3: Baseline issues for horizontal administrative capacity assessment

<table>
<thead>
<tr>
<th>Assessment element</th>
<th>Baseline issues</th>
</tr>
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</table>
| **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 organisation  
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                                                                 |

\textsuperscript{17} Experience from previous enlargements has shown that States which do not set up effective structures and procedures for the management of EU policy-making tend to lose out in the policy process and face difficulties in meeting membership obligations. For more information see Verheijen (2000).
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.

Source: OECD (1999)

As Table 3 shows, the baseline assessment covers six core areas. In each of these areas minimum standards were developed, in consultation with the EU and the involvement of Candidate Countries. Concerning the measurement of each key component, the assessment uses a rating scale ranging from standard achieved to standard unlikely to be achieved under present arrangements (Verheijen, 2000; Elbasani, 2009).

This assessment tool is particularly relevant because the key indicators identified have been used frequently over time to measure AC. This is evident if one looks at the documents produced at EU level, such as the Enlargement Strategy Papers, Progress Reports, studies included in the ‘Enlargement Package’, where the assessment of the level of AC possessed by Candidate and potential Candidate Countries takes into account the elements identified in the 1999 Commission Progress Report (e.g. Albania Progress Report 2013, Enlargement Strategy and Main Challenges 2013-2014). This is also true for the academic and policy literatures, where reference to the six core areas identified in the baseline assessment is usually made.

Alongside these indicators, SIGMA has provided an overview of the general principles to which EU Candidate Countries are expected to conform in the field of public administration and administrative law. In fact, despite the lack of legislation in this domain, over time a relatively wide consensus has emerged regarding key governance criteria which by now can be considered part of a “a non-formalized version of the acquis communautaire” (SIGMA, 2000). These can be grouped into four categories:

- reliability and predictability: this include principles such as the rule of law, proportionality, timeliness, professionalism/professional integrity;
- openness and transparency;
- accountability;
- efficiency and effectiveness.

In addition, the Report offers a detailed description of civil service standards that modern constitutions usually contain. These include: the separation between the public and private sphere and between politics and administrations; individual accountability of civil servants (e.g. well-educated and skilful public managers); sufficient job protection (e.g. stability, level of pay) and clearly defined rights and duties of civil servants; and recruitment and promotion based on merit.

Overall, according to the SIGMA paper, these principles are shared among EU Member States and therefore, in this context, one can speak of a common European Administrative Space (EAS), namely a common set of standards for action within the public administration. The Report has also suggested that general EU-wide norms have emerged as part of the process of Europeanization.

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18 A detailed account of the administrative law principles in connection with the European Administrative Space can be found in SIGMA (1998a). See also SIGMA (1998b). Both papers are at: [http://www.sigmaweb.org](http://www.sigmaweb.org)
specifically through the legislative activity of EU institutions, interaction among officials, increasing influence of EU legislation on the national legal framework and the role of the European Court of Justice (Pereto and Freibert, 2007).

Formal requirements concerning AC are also lacking in the Cohesion policy domain. Here, reference to AC can be found in the Opinions – and thereafter in the regular Reports on candidate countries, where the Commission cited Chapter 21 of the *acquis* as a guideline for candidates to develop and align their regional policy and institutions to “EU standards” (Hooghe *et al.*, 2004). As stated in the Guide to Negotiations (2002), to comply with Chapter 21 the candidates must have:

- an “appropriate legal framework” in place to implement the specific provisions for regional policy;
- demonstrate “programming capacity” (design a development plan, institute procedures for multi-annual programming of budgetary expenditure; ensure the implementation of the partnership principle, comply with evaluation and monitoring requirements);
- define the tasks and responsibilities of all bodies and institutions involved in the preparation and implementation;
- ensure effective inter-ministerial coordination; and
- show sound financial and budgetary management that complies with the provisions in this area and demonstrate the “additionality” provided by their co-financing arrangements.

However, as Hooghe *et al.* (2004) have noted, the requirements set out under Chapter 21 do not clearly define how the specific structures for the practical management of Structural and Cohesion Funds should be set up.

From this review, it has emerged that despite the fact that the *acquis* has developed predominantly along sectoral lines, and it largely assumes basic administrative values, the latter cannot be underestimated. This is demonstrated by the emphasis placed on the need to improve general governance systems in the context of the Candidate Countries’ accession process. As one study by OECD points out (1998), for sectoral institutions to work, general governance functions (e.g. system of justice, administrative oversight, coordination across national and sub-national levels of government) must be in place. The study concluded that poor governance functions might lead to an implementation gap, defined as “the deficit between the set of legal norms and the capacity to implement and enforce them according to EU standards” (OECD, 1998:5). If the gap is systematic, it could undermine the government capacity to achieve important policy objectives, including the ability of a Member States to take up assistance and to make good use of EU funds.

Nevertheless, as we shall see in the next section, the literature relating to AC in the Cohesion policy field has largely disregarded the importance of institutional structures and how their quality might influence the effective and efficient implementation of the policy. We now move on to explore these investigations. In particular, Section 3.1 critically reviews the measures and definitions developed, as well as the advantages and disadvantages of each indicator selected for ranking AC.

### 3.2 Administrative capacity – definitions and measures in earlier studies

In the run-up to the 2004 enlargement, an expanding body of literature examined the AC required by the Candidate Countries in preparing for EU accession, as part of the wider administrative reform and
institution-building requirements to meet the obligations of the *acquis* (Dimitrova, 2011; Grabbe, 2011). In these studies, AC was commonly discussed as being synonymous with absorption capacity, divided into three elements (Horvat, 2005):

- *macroeconomic absorption capacity*: the ability of a national economy to receive financial transfers up to a certain level;
- *administrative absorption capacity*: the ability and skills of central, regional and local authorities to prepare plans, programme and projects in due time; to arrange coordination among the principal partners; to cope with the administrative and reporting work required by the Commission; to finance/supervise implementation properly;
- *financial absorption capacity*: the ability to co-finance EU-supported programmes and projects; to plan/guarantee national contributions in multi-annual budgets and collect them from the relevant partners (both public and private).

While in earlier studies the focus on spending, measured in terms of the Structural Funds expenditure rate, led to a conceptual overlap between administrative and absorption capacity, recent investigations have been relatively more successful in providing a broader definition of AC, as well as a set of more refined, nuanced and policy-relevant indicators.

For example, Milio (2007) defined this concept in terms of “the ability of institutions to manage Structural Funds policy according to their own rules and procedures” (Milio, 2007:56). Four key components of AC were identified: (i) management; (ii) programming; (iii) monitoring; and (iv) evaluation. For each component, the study developed a set of indicators, defined as the objective that administrative process. These, in turn, were measured on an ordinal scale from ‘absent’ to ‘consolidated’. Each indicator was first rated on a scale from zero to three, subsequently averaged to provide a summary score for the administrative process (see Table 4). The indicators were used to assess the degree of AC in two Italian Objective 1 regions, namely Sicily and Basilicata. The data collection involved document analysis, interview data – questionnaires, focus groups, semi-structured interviews, and direct observation.

Other studies (e.g. Šumpíková, Pavel and Klazar, 2004; Consejero and Noferini, 2010) have tested this methodology in different EU countries and regions. For the Czech Republic, Šumpíková *et al* (2004) discussed absorption capacity as being composed of two dimensions: (i) the demand side, namely the ability of the applicants to prepare projects; and (ii) the supply side, that is the effective functioning of the whole implementation system. Their paper focuses predominantly on the supply side of absorption capacity, consisting of three main factors: macro-economic absorption capacity, financial absorption capacity and administrative capacity. The functioning and performance of EU Funds (e.g. the extent to which EU Funds are being managed effectively and efficiently) are considered as a throughput variable, depending on the absorption capacity on both supply and demand side (see Figure 2).19

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19 The evaluation of the supply side was based on research undertaken in selected regions NUT III and on the Czech National Action Plan (2004) elaborated on the base of enquiry in all 13 regions NUTS II in November 2003 (except Prague). Data for the demand side were obtained from the National Action Plan (2004).
### Table 4: Indicators and progressive stages in benchmarking

<table>
<thead>
<tr>
<th>Key components</th>
<th>Indicators</th>
<th>Absent</th>
<th>Starting</th>
<th>Developing</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Management</td>
<td>a) Clarity in the definition of the role</td>
<td>Staff roles and responsibilities unclear and changeable</td>
<td>Staff roles and responsibilities vaguely defined</td>
<td>Staff roles and responsibilities defined</td>
<td>Roles of personnel well defined: Staff able to shape the way in which they participate in management</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Coordination and cooperation between departments</td>
<td>Poor inter-staff and inter-department communications; Lack of formal and informal channels.</td>
<td>Modest amount of inter-staff and inter-department communication; Emergence of formal channels for dialogue and decision-making.</td>
<td>Communications are open and inter-hierarchical; Formal and informal channels established and utilized.</td>
<td>Organisation periodically reviews communication flow to ensure free flow of information through formal and informal channels.</td>
</tr>
<tr>
<td>2. Programming</td>
<td>a) Programme design: SWOT Analysis</td>
<td>Absence of a SWOT analysis</td>
<td>Introduction of a SWOT analysis; Important territorial problems still overlooked</td>
<td>SWOT analysis is supportive of the programme, although interventions selected still not fully targeted.</td>
<td>SWOT analysis is thorough. It allows full correspondence between the budget and targeted territorial needs.</td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>b) Programme approval: time lapse between the beginning of the CSF and approval of the ROP</td>
<td>Approval of the ROP significantly delayed</td>
<td>Approval of the ROP delayed by up to two years</td>
<td>Delay in the ROP approval contained to 1 year</td>
<td>ROP starts within 6 months</td>
</tr>
<tr>
<td>3. Monitoring</td>
<td>a) Introduction of a system of indicators and monitoring procedures responding to national/European an agreed standards</td>
<td>No monitoring system</td>
<td>System has been introduced but indicators and procedure are not functioning properly</td>
<td>Indicators and procedure are coherent with national/European guidelines but still not fully operational</td>
<td>Indicators and procedure are coherent with national/European guidelines and fully operational</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Guaranteeing the availability of financial, physical and procedural data</td>
<td>No data available</td>
<td>Only partial data available</td>
<td>Data available without much delay</td>
<td>Data available and used in support of the policy process</td>
</tr>
<tr>
<td>4. Evaluation</td>
<td>a) Production of evaluation reports</td>
<td>No reports produced</td>
<td>Ex-ante report produced, but no \textit{in itinere} or ex-post report</td>
<td>One report still not produced</td>
<td>All three reports produced</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Integration of evaluation method and culture into the system</td>
<td>The evaluation method considered time consuming and not useful</td>
<td>Although considered important, it is too difficult to perform</td>
<td>Evaluation performed as thoroughly as possible</td>
<td>Evaluation considered a fundamental tool to improve policy implementation</td>
</tr>
</tbody>
</table>

Source: Milio (2007:74)
Figure 2: Relationship between absorption capacity and performance of EU Funds

<table>
<thead>
<tr>
<th>ABSORPTION CAPACITY</th>
<th>Efficiency</th>
<th>Effectiveness</th>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply side of EU funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Macro-economic conditions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Ability to co-finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Administrative capacity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand side:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to develop projects by applicants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Functioning and performance of EU funds according to the requirements deduced from the regulations (for SF notably 1260/99 and 438/2001)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Consejero and Noferini (2010) explored differences in absorption rates in two Spanish Objective 1 regions, namely Andalucía and Galicia, with a view to identifying explanatory variables that may account for such variations. According to their analysis, differences in implementation performance seemed to be more dependent on political factors, rather than administrative ones. In particular, the authors underlined how both regions are equally endowed regarding regional administrative capacity in the management of Structural Funds. On the contrary, Andalucía’s more invasive political environment might explain why the implementation of the Funds had a less positive record than Galicia. They concluded that, in order to evaluate regional performance, additional political and institutional variables should be included in the analysis. In other words, they argued that the uneven absorption capacity may be explained by bottlenecks concerning, amongst other factors, inter-governmental relations, co-ordination between centre and periphery and differences in the political agenda.

Studies for the European Commission by the Netherlands Economic Institute (NEI) have developed a more defined set of benchmarks and baseline indicators to measure AC, as well as a set of intervening variables to explain what can foster or prevent the effective and efficient management of the Funds. In particular, in a 2002 report, NEI proposed a methodology for evaluating “the capacity of the candidate countries to effectively manage the Structural Funds” (NEI, 2002, p.1). The methodology analysed the administrative capacity only for the design phase of Structural Funds, considering it premature to address the additional two phase, that is to say: (i) performance (e.g. the extent to which the Funds have been managed efficiently and effectively); and (ii) functioning of Structural Funds. The assessment focused instead on a series of indicators concerning: management; programming; implementation; evaluation and monitoring; and financial management and control. The innovative aspect of this study consisted in the fact that these indicators were calculated for three main components or “design variables”, considered fundamental in creating the conditions for the effective and efficient management of the SF. These were:

- **structure**: clear assignment of responsibilities and tasks to institutions, specifically at the level of departments or units within these institutions;
- **human resources**: the ability to detail tasks and responsibilities at the level of job description; estimate the number and qualifications of staff and fulfil the recruitment needs; timely availability of experienced, skilled and motivated staff; and
- **systems and tools**: the availability of instruments (methods, guidelines, manuals, etc.) that can enhance the effectiveness of the functioning of the system.
The Report combined these variables with the five different stages of the policy life cycle and key components of AC, resulting in the *Structural Funds Management Grid*, which offered an overall framework and checklist of topics that play a role in implementing sound management of the European Funds throughout the policy cycle (NEI, 2002). The objective of the *Management Grid* was to identify key indicators of measuring absorption capacity in Candidate Countries, with a view to assessing possible needs and shortcomings in their preparation for Cohesion policy. As Table 5 shows, each cell of the grid was filled in, resulting in 20 key indicators.

**Table 5: Key absorption indicators for Candidate Countries**

<table>
<thead>
<tr>
<th>INDICATORS</th>
<th>Design</th>
<th>FUNCTIONING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Structure</td>
<td>Human Resources</td>
</tr>
<tr>
<td>Management</td>
<td>Designation of MA</td>
<td>Staffing of MAs</td>
</tr>
<tr>
<td>Programming</td>
<td>Partnership present</td>
<td>Capacity to carry out programming</td>
</tr>
<tr>
<td>Implementation</td>
<td>Assignment of IB</td>
<td>Staffing of IB</td>
</tr>
<tr>
<td>Evaluation &amp; Monitoring</td>
<td>Designation of monitoring and evaluation of responsibilities</td>
<td>Availability of independent evaluation expertise</td>
</tr>
<tr>
<td>Financial Management &amp; Control</td>
<td>Designation of PA and functions</td>
<td>Accounting and auditing expertise secured</td>
</tr>
</tbody>
</table>

Source: NEI (2002:27)

Following this exercise, experts and researchers adopted the same methodology for their own studies and evaluations (e.g. Papadopoulos, 2003; Horvat; 2005; Oprescu *et al.*, 2005, Vant, 2012; Lorvi, 2013). For example, Horvat (2005), tested NEI’s design variables in Hungary, the Czech Republic, Slovakia, Estonia and Slovenia, with the help of existing programming documents and evaluation studies.\(^{20}\) Similarly, Vant (2012) tested NEI’s methodology, with a view to assess the reasons for low absorption capacity in Romania. The study found bottlenecks in relation to the institutional design and the human resources dimension.\(^{21}\) As far as the latter is concerned, the author clustered the factors that affect the building of suitable AC into two groups: (i) the payment system in place for public officials, which negatively affects their motivation and interest for the job; and (ii) the qualification and training available to ensure a good working performance. Lorvi (2013) applied the same methodology to assess the capacity of municipalities in Estonia for the management of Structural Funds. This investigation included also a qualitative element, characterised by self-assessment and interviews with the heads of municipalities.

\(^{20}\) Out of the five key indicators developed by NEI (2002 – namely, management, programming, implementation, monitoring and evaluation, and financial management and control-, Horvat did a desk analysis of the first three only.

\(^{21}\) As far as the institutional design is concerned, the main problems identified are: large number of institutions in the field of Structural Funds absorption; poor co-ordination of the tasks among these institutions; delays in programme elaboration at the national level due to week local public administration; heavy political interference as demonstrated by the continuous changes of objectives and policies within the civil service bodies; poor capacity in the field of project management; and weak strategic planning.
3.3 Administrative capacity – definitions and measures in more recent studies

After the 2004 accession wave, further new studies were carried out. In most of these investigations, the aim was to identify the main challenges faced by new Member States in implementing their share of Structural and Cohesion Funds resources for the 2004-06 period. A study undertaken by McMaster and Bachtler (2005) provided a comparative analysis of how the new Member States (NMS) had accomplished three key functions: programming; institutional development; and the implementation of the Funds. The study revealed that, in the programming process, bottlenecks were generated by decision-making with respect to the political choices of the strategic development areas and the setting of key targets as well as long-term objectives. In particular, the investigation showed that, in most cases, short and medium-term objectives were chosen over long-term ones, while interventions that were simple and direct were preferred to complex ones (e.g. interventions where it was possible to combine several objectives simultaneously).

Other studies have addressed the topic of the NMS’ choice between the national and regional dimensions of development, namely between mostly sectoral interventions at the national level and those addressing the potential of regional and local development. Baleanu (2007) showed that almost all countries joining the EU in 2004 opted for centralised management systems. This is explained by the fact that regionalisation requires the transfer of several programming and implementation responsibilities concerning Structural Funds to the sub-national level; the latter is advantageous for countries with weak regional and local administrations (and was discouraged by the Commission in the early 2000s). Nevertheless, it has been pointed out that centralised management can have a negative effect on smooth implementation of the programme and, consequently, it can reduce the absorption speed of the funds (Stimson et al, 2011).

A different lens has been employed by research focusing on the operation of administrations (e.g. Verheijen, 2007; Bachtler et al, 2009). Verheijen (2007) conducted a study of AC in Central and Eastern Europe, examining aspects of administrative performance in three areas related to policy, people, and systems. In the field of policy, the study addressed issues of performance management, strategic planning and policy co-ordination and formulation. As regards people, human resource management practices (e.g. recruitment and career management, incentive systems, politico-administrative relations) were reviewed, with the objective of assessing the extent to which public administration in the New Member States could attract and retain high-quality personnel in the context of rapidly changing labour markets. Finally, in relation to systems, the study looked at one specific aspect of public service delivery: the extent to which states had introduced e-Governance systems and used these effectively to enhance the business environment. For each of these aspects, a benchmarking exercise was conducted, with a view to identifying examples of good practice within the region which might be replicable in other EU8 countries. The comparative indicators used to measure performance management and strategic planning systems were based on the World Bank paper “Increasing Government Effectiveness” (2005), which includes international practices and sets out a set of key principles against which policy management systems can be benchmarked.

\[22\] For instance, direct support to enterprises was favoured over the setting up of services for businesses.

\[23\] For this reason, countries like Poland, Czech Republic and Slovakia decided to give up their design-specific regional programmes in the 2004-06 programme period. These were instead incorporated into sectoral programmes or into a single national programme (e.g. Joint Operational Programme in the Czech Republic).
As far as policy co-ordination, both vertical and horizontal, is concerned, the author applied the Metcalfe Coordination Scale (Metcalfe, 1994), to arrive at a relative ranking of the case studies as well as to set a benchmark for adequate performance on this criterion. In terms of human resource management, Verheijen used the SIGMA approach for assessing HRM systems, adding some elements to assess incentive systems based on World Bank wage system reviews. Finally, for e-governance innovations, benchmarking was mainly conducted against phases of the development of e-governance systems. This type of approach was followed in the ex-post evaluation of the management and implementation of Cohesion policy in the NMS in the 2004-06 period, which assessed AC on the basis of human resource, skills and tools and procedures (Bachtler et al., 2009).

Another valuable attempt to operationalise administrative capacity in a European comparative perspective was made by the researchers from the COCOPS project, financed under the EU 7th Framework Programme. Hammerschmid, Stimac and Wegrich (2014) emphasised that although there are many studies on public management performance or governance quality, most of them rely on external experts assessments, excluding public managers’ perspective. To address these shortcomings, the COCOPS team conducted a survey with high-level public sector executives from 15 countries. To construct an Administrative Management Capacity Index, researchers operationalised administrative capacity in six dimensions:

- **Strategic capacity** – existence of formalised strategic planning practices, clarity of strategic objectives, communication of goals to staff,

- **Human Resources Management** – the level of HR management tools implementation, flexibility of employment in terms of individualisation and decentralisation of staff roles in organisation,

- **Organisational Culture** – quality of social capital within organization and staff self-commitment to institution and its objectives,

- **Performance measurement** – use of quality-monitoring tools like customer surveys, benchmarking, Management by objectives (MBO),

- **Leadership** – the executives’ commitment to achieving results and their level of political independence,

- **Coordination** – quality of inter-organisational and multi-level collaboration and use of various arrangements to solve coordination problems.

Hammerschmid et al (2014) take the view that, although the index has some limitations, it is overall successful in addressing the shortcomings of previous studies, which excluded organisational level factors in determining administrative capacity.

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24 These countries are: Austria, Estonia, France, Germany, Hungary, Ireland, Italy, Lithuania, Netherlands, Norway, Portugal, Serbia, Spain, Sweden and the UK. A total of 29,536 survey invitations were sent out and 8,117 responses were obtained (27.5% response rate). For further information on the survey, please visit the COCOPs website: http://www.cocops.eu/work-packages/work-package-3
3.4 Administrative capacity – gaps in the literature

While the research outlined above has provided relevant insights into the functioning of systems, we argue that there are two major shortcomings within this body of literature. First, investigations are largely descriptive: researchers have tended to gain insights from secondary sources and interviews, without using an explicit theoretical framework. To some extent, this reflects the nature of the research topic itself, and of public policy in general, which is hard to research since it is a composite of different processes that involve several layers of administration, actors and decision-makers.

Second, the analysis of the policy cycle follows a sequential model, where policy is identified as a linear sequence of intended actions (e.g. programming, implementation, monitoring and evaluation, financial management and control). For each action, a set of indicators has been developed to assess the performance of the public administrations. The relevant scores for each action have been subsequently aggregated to provide a final overview of where an institution is to be located in terms of performance. More sophisticated studies, have combined the stages of the policy cycle with a set of variables (e.g. structure, human resources, systems and tools), considered fundamental in creating the conditions for the effective and efficient management of Cohesion policy funds. We argue that, while this characterisation of public-decision making has added much to our knowledge about the different phases that compose the policy cycle, it is, nevertheless, of limited use in understanding the incentives and preferences of relevant actors, as well as their strategic interaction among other actors and institutions.

Similarly, these investigations follow a classic linear theory of policy implementation. This assumes that politicians and leading bureaucrats formulate policy, then other bureaucrats implement it (John, 1998). According to this approach, the ideal outcome from the perspective of policy framers is effective implementation, something which has led researchers to focus predominantly on bottlenecks to be found in policy execution by the bureaucratic agencies. This approach neglects the fact that lower levels of government, agencies, bureaucrats and interest groups have a role in deciding policy and that the relationship between politics and policy is an ongoing interplay, which is, in turn, shaped and constrained by the institutional setting in which actors operate.

To gain insights into this ongoing interplay, we now turn our attention to the relationship between the lower levels of government in charge of administering Cohesion policy and the multiple administrative capacity-building bodies at higher level. We do so by exploring the EU approach to administrative and institutional capacity-building, specifically the vast array of interventions implemented at different levels by the former to target bottlenecks in the administrative capacities displayed by Member States and regions. In moving towards this objective, the next section looks at administrative capacity-building actions, as discussed within the relevant policy literature.

4. ADMINISTRATIVE CAPACITY-BUILDING AND COHESION POLICY

This section provides an overview of the EU approach to administrative and institutional capacity-building. First, it describes the strategic rationale behind the introduction of this priority, first in the PHARE programme, followed by the mainstreaming of ESF’s assistance to ACB. It then touches upon existing initiatives at the EU level geared towards performance improvement of the wider public
sector. Second, it describes the three broad elements of administrative capacity-building in the CP domain which can be distinguished: structures, human resources and systems and tools; and how different types of interventions implemented interact with bottlenecks encountered in these dimensions. Third, it reviews measures and indicators for evaluating ACB interventions to assess the effectiveness, efficiency and impacts of ACB actions. The objective of this exercise is to provide an overview of existing ACB activities at the EU level, gain a preliminary understanding of how the relevant literature has engaged with this topic (e.g. measures and indicators developed) and present the relevant findings in terms of what works and what does not work as far as ACB interventions are concerned.

4.1 Administrative capacity-building - Background

EU-support for institutional and administrative capacity-building is not new. Indeed, it goes back to 1989 with the launch of the PHARE programme, initially providing support for economic restructuring in Poland and Hungary and then other Central and Eastern European countries, and from 1997 providing pre-accession aid for applicant countries preparing to join the EU. The scope of ACB assistance under this programme was two-fold: on the one hand, it aimed to help candidate countries to implement the acquis and prepare for participation in EU policies such as economic and social cohesion. On the other hand, its objective was to help these countries fulfil the requirements of the Copenhagen criterion including, amongst others, the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities (Ecorys, 2011). Table 6 provides an overview of the purpose and types of interventions supported under PHARE.

<table>
<thead>
<tr>
<th>Driver</th>
<th>Accession: compliance with the Copenhagen criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td>General objectives</td>
<td>Institution-building</td>
</tr>
<tr>
<td>Specific objectives</td>
<td>Assistance provided to:</td>
</tr>
<tr>
<td></td>
<td>- Implement the <em>acquis communautaire</em> and to prepare for participation in EU policies;</td>
</tr>
<tr>
<td></td>
<td>- Fulfil the requirements of the Copenhagen criteria.</td>
</tr>
<tr>
<td>Types of interventions</td>
<td>- Facilitate twinning between ministries, institutions, professional organisations;</td>
</tr>
<tr>
<td></td>
<td>- Offer technical advice on the <em>acquis</em>;</td>
</tr>
<tr>
<td></td>
<td>- Help to develop facilities for training the PA at central and regional level.</td>
</tr>
</tbody>
</table>

Source: Guidelines for PHARE Programme Implementation in Candidate Countries for the period 2000-2006 in application of Article 8 of Regulation 3906/89.

This support was framed within the wider accession negotiations, as the EU had made administrative capacity-building a condition for EU membership. PHARE ceased to exist in 2007\(^{25}\), and was replaced by the Instrument for Pre-Accession Assistance (IPA) which is used *inter alia* for transition assistance and institution-building in the current enlargement countries. With EU enlargement in 2004, the ten countries joining the EU became eligible for ACB support through the ESF, for which capacity-building now became a mainstream activity in the 2007-2013 period.\(^{26}\) Additionally, in the 2014-20 programme period, the enhancement of administrative and institutional capacity is included

\(^{25}\) Despite the considerable achievements of PHARE, its effectiveness and impact are reported to have been compromised by a number of factors. For example, in a thematic evaluation carried out by MWH Consortium (2007) it is emphasised that, while planning PHARE support, important weaknesses relating to the candidate’s systems and standards of governance, public administration and judiciary had been underestimated. Additional problems concerned the lack of a clear framework and strategic underpinnings with regard to horizontal Public Administration Reform (PAR) strategies; in particular, the excessive focus on institution building on specific acquis areas undermined the overall impact of the programme in these countries (Ecorys, 2011).

\(^{26}\) These countries became eligible for ESF financing, including ACB activities, provided that they were eligible under the Convergence objective.
as a separate Thematic Objective, namely “TO 11” (see the Annex, for an overview of the relevant provisions in the legislation for the 2014-2020 period). As Table 7 table below shows, both ESF and ERDF, where relevant, contribute to this priority.

Table 7: ESF and ERDF contribution to administrative capacity-building

<table>
<thead>
<tr>
<th>Objective</th>
<th>ESF support under TO11</th>
<th>ERDF support under TO11</th>
<th>Support to ACB under other TOs</th>
<th>Technical Assistance under ERDF and ESF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on reform (support structural, systemic, horizontal change, better regulation, good governance)</td>
<td>To support ESF operations</td>
<td>Build capacity of public bodies needed for absorption &amp; achievements of ERDF results</td>
<td>Reforms, AC and better service provision in certain sectors are funded by ERDF (TO1-7) and ESF (TO8-10)</td>
<td>Ensuring capacity for the management of the ESI funds • operational support; • not reform oriented</td>
</tr>
<tr>
<td>PA on national regional and local level Stakeholders (e.g. social partners, NGOs)</td>
<td>Same as for ESF funding under TO11</td>
<td>Public bodies relevant to the absorption and achievement of ERDF impact (but which are not directly involved in managing the ERDF)</td>
<td>Public bodies and other stakeholders for the delivery of TO1-10, including intermediate bodies and final beneficiaries</td>
<td>Managing Authorities, Certifying Authorities, Audit Authorities, Intermediate Bodies, Monitoring Committees, Joint Technical Secretariats</td>
</tr>
<tr>
<td>Examples of support</td>
<td>IT infrastructure – networks and applications</td>
<td>If not covered by broader PAR: Strengthen administrative capacity for implementation and application of state aid rules Enhance transparency of public procurement systems</td>
<td>TO7: Capacity-building for planning, implementing and managing projects; TO8: Capacity of employment services</td>
<td>Practical actions to reduce the administrative burden for beneficiaries Actions to reinforce the capacity of beneficiaries to administer and use ESI funds Actions to increase capacity of relevant partners Knowledge management and sharing Studies and evaluations related to management of EU funds</td>
</tr>
</tbody>
</table>

A series of key documents published at the EU level, provide the rationale for introducing the new ACB priority\(^{27}\), which can be summarised as (i) efficiencies in public services lead to increased productivity in the economy; (ii) well-functioning institutions are a pre-condition for the successful design and implementation of policies to promote social and economic development and to contribute to growth and employment; and (iii) effective administrative and institutional capacity is central to good governance (European Commission, 2007). Table 8 summarises the strategic characteristics of ESF interventions related to ACB for the 2007-2013 programming period.

Table 8: Strategic characteristics of ESF (2007-13) in relation to ACB

<table>
<thead>
<tr>
<th>ESF 2007-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Driver</td>
</tr>
<tr>
<td>General objectives</td>
</tr>
<tr>
<td>Specific objectives</td>
</tr>
<tr>
<td>Types of interventions</td>
</tr>
</tbody>
</table>


The overall volume of resources devoted to ACB actions accounts for only a limited percentage of all ESF Funds, and there is great variation among Member States in terms of the allocation of resources to this priority\(^{28}\) and the type of ACB actions (the latter can take the forms of Operational Programmes, priorities within programmes, operations or single activities). In the 2007-2013 period, Category 81 of the Cohesion policy expenditure categorisation system was the priority that grouped most of the interventions aimed at strengthening institutional and administrative capacity and at

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\(^{27}\) The strengthening of administrative and institutional capacity and the efficiency of public administrations at national, regional and local level has been one of the main ESF priorities both in the previous (2007-2013) and in the current programme period (Article 3.2. (b) – Regulation EC 1081/2006) and Article 3 – Regulation (EU) 1304/2013). The underlying rationale is that such strengthening of capacity contributes to economic growth, employment and good governance, in line with the objectives laid out in the (previous) Lisbon Strategy and in the (current) Europe 2020 Strategy.

\(^{28}\) For example, in the 2007-2013 programme period, Spain allocated a modest 0.1 percent to this priority, while in the case of Lithuania over 16 percent of resources were devoted to ACB actions.
improving the efficiency of public administrations and public services at all levels. Alongside this category, other ACB actions fell under the support of the ESF. These are summarised in Table 9.

Table 9: ESF ACB-related categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Priority theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 13</td>
<td>Services and applications for the citizen (e-government, e-learning, e-inclusion, etc.)</td>
</tr>
<tr>
<td>Category 63</td>
<td>Design and dissemination of innovative and more productive way of organising work.</td>
</tr>
<tr>
<td>Category 81</td>
<td>Mechanisms for improving good policy and programme design, monitoring and evaluation at national, regional and local level, capacity building in the delivery of policies and programmes.</td>
</tr>
<tr>
<td>Category 85/86</td>
<td>Preparation, implementation, monitoring and inspection/evaluation and studies; information and communication.</td>
</tr>
</tbody>
</table>

Examples of specific objectives for ESF-supported interventions under Category 81 included measures and operations supporting:

- the set-up of procedures and rules of procedures in governmental organisations;
- the establishment and quality of public services;
- human resource development (HRD);
- self-government;
- management of EU policies, strategic planning and monitoring;
- organisational effectiveness;
- social dialogue and the strengthening of NGOs; and
- strengthening of the judiciary.

Overall, administrative capacity-building interventions mainly target three dimensions: (i) structures; ii) human resources; and (iii) systems and tools. As described above, these components have been used to develop key indicators for measuring administrative capacity to manage the SF (e.g. Ecorys/NEI, 2002).

- Typical support under **structures** includes interventions seeking to enhance the existing organisational structures and mechanisms, with a view to improve the conditions for policy implementation (e.g. measures targeting legal, regulatory and constitutional changes; the reorganisation of tiers of government, etc.).

- With regard to the dimension of **human resources**, measures have sought to equip individuals with information, knowledge and training to enable them to carry out their tasks effectively. Interventions in this field mainly focus on modernising recruitment, better management of human resources (e.g. division of tasks and responsibilities, career development, incentives for personal development, etc), capacity building of training institutions and the HRM units (Šumpíková et al., 2006).

- Lastly, measures targeting **systems and tools** deal predominantly with the development of instruments, particularly ICT infrastructure and e-government, with a view to help the

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29 In the 2014-20 programme period, general enhancement of Member States’ institutional capacity (e.g. reforms required for general government effectiveness, the rule of law, efficiency of judicial system, civil service rules, etc.) is addressed under Thematic Objective 11, while administrative capacity-building linked to management of ESI Funds is addressed through Technical Assistance from all Funds.

30 Other ACB-related interventions were implemented under different categories and applied mostly to partnership with NGOs, labour market, social inclusion, e-government and technical assistance (Ecorys, 2011).
management bodies transform implicit knowledge into an explicit one that can be shared across organisations.

In addition to these interventions, several transnational networks have been directly or indirectly involved in activities geared towards performance improvement of the public sector. These initiatives have been mainly promoted by DG Regio, the World Bank, OECD SIGMA, EIPA (European Institute of Public Administration), and the EU Public Administration Network and Learning for Change Networks (see Box 1 below for an overview of the type of ACB activities supported by these networks).

**Box 1: Examples of administrative capacity-building activities**

<table>
<thead>
<tr>
<th>Learning and exchange activities in the area of ACB, include the following:</th>
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<tbody>
<tr>
<td>- OECD SIGMA: exchange and learning amongst participating governments of 30 countries;</td>
</tr>
<tr>
<td>- World Bank: knowledge development, sharing, dissemination and training. It includes addressing specific critical issues such as problems in MS relating to project selection;</td>
</tr>
<tr>
<td>- DG MARKT/REGIO/EMPL/AGRI/MARE: public procurement action plans linked to ESI Funds;</td>
</tr>
<tr>
<td>- EIPA networks: i) the Common Assessment Framework (CAF) Learning Centre, involving cooperation among EU Ministers in the area of public service delivery; ii) the European Public Sector Awards (EPSA), which brings together the innovative performers in this areas;</td>
</tr>
<tr>
<td>- European Union Public Administration Network (EUPAN): driven by the Presidency of the EU. It involves the participation at the level of PA senior civil servants; the whole of the EU participates.</td>
</tr>
<tr>
<td>- Learning for Change Networks: i) the Common Assessment Framework (CAF) Learning Centre, involving cooperation among EU Ministers in the area of public service delivery; ii) the European Public Sector Awards (EPSA), which brings together the innovative performers in this areas;</td>
</tr>
</tbody>
</table>

Very diverse in terms of format and content, these initiatives include advisory and consultancy services, learning platforms, as well as research and publications.

Administrative capacity-building initiatives organised by EIPA, for example, span from training activities in the field of Change Management, addressing the role of leadership in managing change for public officials from all levels of public administration, to seminars covering the programming and management of SF and the application of the relevant regulations. Another example is the work carried out by platforms such as the European Public Sector Award (EPSA). This aims to help Europe’s public sector institutions share and disseminate good practice in different sectors of public administration, thereby generating know-how and results that can lead to innovative solutions and learning opportunities.

The Common Assessment Framework (CAF) figures amongst the most often cited and prominent flagship initiatives geared towards public sector modernisations (see Box 2 for an overview of the CAF model). Offered as a tool to help public administrations across Europe develop quality management techniques to improve performance, it has been designed for use in all parts of the public sector.

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32 However, this model for administrative quality assessment requires the development of a performance-based approach to public management (WB, 2006). This means that performance management, through self-assessment, can potentially contribute to the process of building the administrative capacity of public...
Box 2: EUPAN and the CAF

The European Public Administration Network (EUPAN) is an informal network of the Directors General responsible for Public Administration in EU Member States, the European Commission and observer countries. Key stages in the evolution of the model include the following:

- Following the increasing need to optimise cooperation in relation to the modernisation of government’s services in MS, a steering committee at the EU level was created in 1997. The Innovative Public Service Group (IPSG), acting under the aegis of EUPAN, developed the Common Assessment Framework (CAF) – a tool based on Total Quality Management for self-assessment in the public sector. This is intended to help public administrations across Europe to understand and use modern management techniques;

- The year 2001 witnessed the establishment of the European CAF Resource Centre (CAF RC) at the European Institute of Public Administration (EIPA) in Maastricht. This is a centre of expertise in CAF implementation which carries out research on the use of the model with a view to further develop it. It also supports and stimulates the European network of national CAF contacts and the community of CAF users. The CAF–Network consists of the national correspondents in charge of the dissemination of the CAF at national level and the European CAF Resource Centre at EIPA.

Functions and key objectives:

- The model identifies the main aspects that need to be taken into account in any organisational analysis. These are divided into “enablers” (managerial practices of an organisation) and “results” (measured by perception and performance measurements). These are further broken down into 28 sub-criteria, which identify the main issues that need to be considered when assessing an organisation (CAF. 2013 p.10);

- Results in organisational performance, namely people, citizen/customers, social responsibility, are achieved through leadership. The latter drives strategy and planning, people, partnerships, resources and processes;

- Effective use of the CAF should, in time, lead to enhanced performance as well as to the further development of a culture of excellence within the organisation. Therefore, the model itself can be regarded as a tool to strengthen the capacity of public sector organisations (Heichlinger et al., 2014).

As shown above, there are many initiatives currently in place to assist Member States and regions develop and enhance their public administration performance in different areas. However, activities are being promoted by a plethora of different European institution, targeting distinct areas in a seemingly unsystematic way. Furthermore, systematic assessments of results achieved and added value of these initiatives is missing. Consequently, it is unclear whether a duplication of effort with other initiatives is taking place and whether, and the extent to which, these actions contribute towards the enhancement of EU PA’s capacities.

4.2 Administrative capacity-building – policy literature

Numerous studies have sought to assess the effectiveness, efficiency and sustainability of administrative capacity-building interventions in the Cohesion policy domain. However, research has mostly focused on ESF-supported interventions, while other key dimensions such as learning, networking and training, tackled by other initiatives have been neglected.

Reports prepared for the European Commission, for instance, have mainly focused on ACB interventions. Notably, Ecorys (2011) has provided an assessment of a number of PHARE and ESF actions in administrative and institutional capacity-building. With reference to the 2014-2020 period, the Report assessed the extent to which the ESF is capable of responding to key bottlenecks in the organisations. However, successful introduction and use of the model itself might require some significant investments in capacity.
administrative capacity domain, in order to elaborate relevant recommendations for the future. Out of the 18 Member States eligible for ACB for 2007-2013, 10 countries were selected for the study, based on geographic balance, budget devoted to the priority, characteristics of the OP-structure, learning expected and the inclusion of a local and regional dimension (Ecorys, 2011).

The point of departure for the study is the idea that administrative capacity-building interventions have two orientations - internal and external. The former focuses on improving the provision of public goods and services by the various public institutions; it therefore focuses on performance of the institutions and internal pressures. The latter is built on the premise that ACB is interlinked with the broader society, including competitiveness and socio-economic development (relationship between good governance and economic growth and social development). Both dimensions are taken into account to monitor progress as far as administrative and institutional capacity-building interventions in the EU MS are concerned. The study considered four typologies of indicators:

- **output indicators**: linked to the operational objectives of the programme; quantification of a specific activity;
- **result indicators**: linked to specific objectives; relating to the immediate effect on direct beneficiaries brought by the specific intervention;
- **specific impact indicators**: linked to the consequences of the intervention beyond the immediate effects; these are attributable, at least to a significant extent, to the interventions;
- **global impact indicators**: interventions can only be expected to contribute to a limited extent to global/overall impacts, which are mostly of a contextual nature.

Impact indicators were evaluated at separate points in time and referred to wider target groups and society as a whole (e.g. better response to the needs of citizens and firms; more effective and efficient governance). Output and results indicators were monitored regularly, as part of performance management and the implementation of activities and are attributable to ESF-interventions. Both impact and performance indicators were considered together.

The study found that ESF ACB interventions tended to respond well to bottlenecks identified in relation to structure, human resources and systems and tools. Weaknesses identified in structures could be targeted by ESF interventions through measures addressing, amongst others, coordination of policies and strategies, problems with lack of analysis and strategic planning, duplication and/or fragmentation of competencies at various levels. Interventions addressing human resources directly targeted competence gaps and lack of competent staff by training programmes. In this domain, the Ecorys study revealed that, while ESF interventions could assist in the formulation and implementation of HR policies and strategies, the effectiveness of interventions was conditional on political endorsement of such HR policies and strategies. Similarly, problems relating to high staff turnover due to reward levels were found to be a subject that lay largely outside the scope of ESF-funded interventions. Finally, the Report found that systems and tools were relatively easy to address. Although there was a general lack of impact assessment tools, limited use of evaluations and monitoring tools, other ICT tools and e-governance, these issues were partly addressed under Category 81 spending, as well as through a wide variety of other categories of intervention (e.g. Category 13 addresses e-governance). Tables A4-A6 in the Annex provide an overview of the gaps

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33 The selected countries are: Bulgaria, Greece, Hungary, Lithuania, Poland, Portugal, Romania, Slovenia, Spain and Wales.
identified under each of the three categories, followed by an assessment of the extent to which the problem has been targeted by ACB interventions.

The study concluded that ESF ACB measures have very limited ability to address problems relating to the contextual environment within which the public administration operates. The inability of these interventions to address AC bottlenecks is something that should not be underestimated, particularly because the performance of the public administration depends strongly on these contextual factors which, according to the Report, are mostly of a political nature (see Table 7).

Table 7: Contextual issues and relevance of ESF interventions

<table>
<thead>
<tr>
<th>Gap/Problem</th>
<th>Targeted by ESF</th>
<th>Assessment of relevance of ESF intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Politicised environment</td>
<td>No</td>
<td>Limited or no ESF response</td>
</tr>
<tr>
<td>Leadership gaps</td>
<td>No, but cannot be addressed by ESF</td>
<td>Limited or no ESF response</td>
</tr>
<tr>
<td>Short term orientation</td>
<td>No, but cannot be addressed by ESF</td>
<td>Limited or no ESF response</td>
</tr>
<tr>
<td>Political leadership subject to change</td>
<td>No, but cannot be addressed by ESF</td>
<td>Limited or no ESF response</td>
</tr>
<tr>
<td>Risk aversion</td>
<td>No, but cannot be addressed by ESF</td>
<td>Limited or no ESF response</td>
</tr>
<tr>
<td>Lack of transparency</td>
<td>Indirectly addressed by procedures and e-governance</td>
<td>Limited or no ESF response</td>
</tr>
<tr>
<td>Limited partnership capacity</td>
<td>Addressed in several case study countries</td>
<td>Partial ESF response</td>
</tr>
<tr>
<td>Underdevelopment of NGOs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ecorys (2011:69)

In the same vein, a study by the European Commission (2010) assessed ACB interventions in various Member States, concluding that contextual factors cannot be overlooked. In particular, among the problems identified in MS’ public administrations, the study underlined the inherited political culture, weak structures of cooperation and skills, as well as competence gaps amongst civil servants.

Other investigations addressing this topic have provided an overview of the ways in which Member States have used ESF resources to strengthen the institutional capacity of public bodies. For example, a study produced by Bernard Brunhes International (2010), offers insights into the different initiatives carried out across EU countries and their achievements as far as the ACB priority is concerned. The investigation found that when Member States address this priority as part of ESF assistance, they mainly do so to enhance public employment services, education and training systems and public administrations at national, regional and local level. Interventions mainly concern a combination of capacity-building, modernisation of the administration system or networking with stakeholders.

Empirical research exploring ACB interventions in the EU outside the ESF realm is quite scarce and scattered across different themes. For instance, references to learning can be found, to some extent, in the 2013 Cohesion policy strategic reports by Member States on the 2007-2013 period. It is also covered in evaluation research conducted on the 2000-2006 period, which cited examples of the adaptation of systems in response to experience such as simplification and standardisation of procedures, changes to guidance and investment in training (Bachtler et al, 2010). The use of technical assistance for learning purposes has also been partially studied (Fraser et al, 2012; Metis, 2014).

Simplification and standardisation of procedures have been examined in a series of reports (Tecnostruttura, 2012) tackling aspects related to the financial management of CP-supported
interventions, such as the simplification of costs options\textsuperscript{34}; since the latter is expected to lighten the administrative burden on beneficiaries and management bodies, thus contributing to a more efficient and correct use of the Funds. For example, Tecnostruttura (2012) has assessed how different Italian regions have applied simplified cost options (e.g. standard scale of unitary costs), with a view to fostering exchange of good practice among regions. A series of working documents prepared by the Commission services responsible for the Structural Funds, provide technical guidance on simplified costs options to public authorities, programme managers and auditors, beneficiaries and other bodies involved in the implementation, management, monitoring and control of Cohesion policy. The aim of these documents is to provide guidance to facilitate the use of simplified costs, reduce legal uncertainty and financial risk for beneficiaries, and encourage the exchange of good practices (European Commission, 2010).\textsuperscript{35} Other studies (e.g. the World Bank, 2014) have addressed bottlenecks relating to more specific critical issues related to administrative capacity, such as problems in the field of project selection, and how the latter has been targeted to boost the quality of EU investments.

This body of work, however, has mainly cited examples of good and bad practice rather than systematically defining and analysing how different interventions across Member States and regions contribute to administrative capacity-building. This means that there is a lack of clarity in terms of what builds administrative capacity and strong institutions for managing Cohesion policy effectively, or whether specific external factors play a role in this process.

4.3 Administrative capacity-building – limitations and gaps in the literature

Administrative capacity-building interventions at the EU level are not new. These have been introduced and gradually strengthened over the past two decades with a view to assisting Member States and regions to manage specific programmes as well as to address broader governance issues.

The bulk of the literature reviewed above has sought to assess the effectiveness, efficiency and sustainability of these ACB interventions in the Cohesion policy domain. However, studies have almost exclusively focused on ESF-supported interventions. Other dimensions, such as learning (e.g. investing in knowledge and skills, learning from experience and the adaptation of tasks, systems and procedures) or networking (e.g. the conditions under which participation of administrative networks improve or undermine capacity for delivering CP) have not been tackled.

At the same time, current research which has focused on non ESF-funded ACB interventions have tended to cite examples of good and bad practice in all the different areas outlined above, rather than systematically defining and analysing how different interventions across countries and regions contribute to ACB e.g. are there benefits from peer learning across public administrations in different EU MS/regions? which indicators can be developed to measure this?. The result is that there is no

\textsuperscript{34} The latter has been introduced as a way to reduce errors in structural actions due to the complexity of the legal and implementing framework in place. Experience in Member States has shown that a large proportion of the supporting documents inspected by controllers and auditors are needed to justify a minor part of expenditure. This means that a great deal of human resources and administrative effort involved in the management of the SF is absorbed in accumulating and verifying documents, rather than focusing on the achievements of policy objectives (EC, 2010).

overall clear idea of what builds administrative capacity and strong institutions for managing Cohesion policy effectively, or whether specific external factors play a role in this process.

5. LEARNING FROM ORGANISATIONAL AND HRM RESEARCH

The review of the literature so far has underlined the necessity to bring together two dimensions, namely the exogenous and the endogenous dimensions of administrative-capacity building, with a view to identifying what constitutes administrative capacity and how the latter can ultimately be built and maintained. In the face of the limitations encountered within the relevant literature, the adoption of an interdisciplinary approach would appear to be a condicio sine qua non. Consequently, the following section explores whether and how research conducted under organisational studies and human resource management can help us gain a better understanding of what constitutes administrative capacity, what are the factors that can potentially influence it and the relevant implications for the study of AC and ACB.

5.1 Organisational culture, organisational structures and Human Resources Management

The paradigm shift in public administration towards a more ‘managerial’ approach is common for most of the EU member states. In general this combination of reform processes is a result of socio-economic changes that Europe has witnessed in last 30 years. Although the initial phase of New Public Management (NPM) reforms was observed before 1990, the subsequent dynamics of social, economic and cultural changes led to accelerated change in European systems of public administration.

It is important to underline that NPM was mainly a response to limited budgets and resource problems. The main issues were connected with effectiveness and efficiency of public service delivery. Kickert (1997) saw these changes as a way for administration to “work better and cost less” or using more business-like terms such as to “deliver more value for money”. Recently observed and studied developments are transcending these NPM theorems. They are the results of technological, social and cultural changes that are forcing states to move back from the omnipotent and central agent of social change. As pointed out by Bill Clinton in the 1996 State of the Union Address "the era of Big Government is over". The turbulent changes within information economy and network society (Castells and Himanen, 2004) have pushed governments to various forms of decentralisation, disaggregation, devolution at the same time as the impulse to introduce multi-level governance, network governance and hybrid solutions (Kickert, 2001). Governments now interact more profoundly with various business, societal and NGO partners, at the same time becoming more reliable of quasi-outsourcing processes.

All of these changes influence administrative capacity. In previous chapters of the review we have attempted to describe and compare theoretical definitions and concepts like governance, Quality of Government, administrative capacity building etc. We then related these definitions to the growing discussion about the necessity of improving the process of administrative capacity building within Cohesion policy implementation systems in EU Member States. In this section, we focus on the managerial level of administrative and institutional systems. We emphasise that administrative capacity building is a process that should result in desirable change and improvement in various
elements of organisational culture, organisational structure and Human Resources Management (HRM). Moreover, these changes should be integrated. This assumption is a result of our approach to avoid narrow conceptualization of what constitutes administrative capacity.

5.2 Organisation culture

We begin by focusing on organisational culture and its relationships with administrative capacity building. How is ‘organisational culture’ understood? There is a vast literature on this topic, and to keep provide synthesis as well as explanation, we shall focus on a few different definitions of culture mentioned by Koci (2007, p. 251)

Table 8: Dimensions of culture

<table>
<thead>
<tr>
<th>Dimension of culture</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Historical</td>
<td>Culture is social heritage or tradition that is passed on to future generations</td>
</tr>
<tr>
<td>Behavioural</td>
<td>Culture is shared, learned human behaviour, a way of life</td>
</tr>
<tr>
<td>Normative</td>
<td>Culture is ideals, values, or rules for living</td>
</tr>
<tr>
<td>Functional</td>
<td>Culture is the way people solve problems of adapting to the environment and living together,</td>
</tr>
<tr>
<td>Mental</td>
<td>Culture is a complex of ideas or learned habits for social control</td>
</tr>
<tr>
<td>Structural</td>
<td>Culture consists of patterned and interrelated ideas, symbols, or behaviours</td>
</tr>
<tr>
<td>Symbolic</td>
<td>Culture is based on arbitrarily assigned meanings that are shared by an organisation</td>
</tr>
</tbody>
</table>

Source: (Koci 2007, p. 251)

Which of these generic definitions could be adapted to the process of administrative capacity building? The simplest answer could be: all of them, but with a different intensity at different stages. Evidence from EU countries show that historical dimension (traditions), behavioural dimensions (learned behaviour) and functional dimension (the way of solving problems) have a visible impact on administrative capacity in various European countries and regions; for example, Greece after more than 30 years of “Europeanization” processes still has not reduced the impact of “deeply rooted behaviour of political clientelism and dominance of intermediaries” (Tsipouri and Athanassopoulou 2013, p. 30).

We can see that the cultural roots of complex administrative systems and single institutions are one of the main reasons why administrative capacity building is neither a simple nor swift process. ACB requires changes at different levels. Unfavourable cultural conditions could restrict the range of the process or limit its effectiveness. Therefore it is important to underline the four essential features of organisational culture (Langan-Fox and Tan, 1997):

- it requires substantial effort to be changed;
- it is almost unwittingly accepted by people;
- it incorporates sets of shared understandings; and
- it is not imposed but derived from the organisation's members.

These are mainly general considerations. In drawing concrete lessons for management, almost all authors refer to the seminal work of Hofstede (2001). His research was initially conducted in IBM and then tested within other private company contexts according to a five-dimensional model of culture. It is a general framework which can be to some extent applied to public organisations. The model was based on contrasting pairs of attributes:
Using the Hofstede model as a starting point, Bouckaert (2007, pp. 57-58) describes some relations between cultural aspects and managerial level of organisation. For example, the concrete incarnation of the individualism-collectivism dyad was found to influence personnel training outcomes or entrepreneurial behaviour (i.e. it had an impact on the degree to which an organisation relies on individual talent and responsibilities of the managers and line employees). The more ‘masculinized’ an organisation is, the more it relies on individual performance. A rebours – ‘feminization’ of organisations is associated with the ability to strengthen interpersonal relations and team cooperation for goal achievement.

Bouckaert (2007:56) demonstrates that there has been substantial research on the relationship between organisational effectiveness and culture, but it is important to underline that the majority of the studies were conducted within the environment of multinational companies. Koci (2007, s. 250) reflects that research on the role of culture in public administrations was not done for a long time and, as a result, there is a lack of systematic, evidence-based discourse. This topic has become more important in recent years, with numerous comparative studies on politico-administrative systems and cultures (with the caveat, however, that the scope is usually narrowed down to more general aspects of culture). We should also remember that some authors who study the cultural dimension of public management use different terms to describe the above-mentioned elements of organisational culture, namely “national policy styles” or “administrative traditions” (Peters, 2005, p. 76).

Lessons from this research stream show that culture does matter in shaping organisations, and could influence organisational effectiveness (Bouckaert, 2007, p. 57). The latter assertion is a rather common understanding of the organisation-culture relationship (Moynihan and Pandey, 2005). Nonetheless Bouckaert (2007, p. 52) emphasizes the ‘chicken-and-egg’ dilemma in drawing a causal relations between culture and public management reform (in terms of preconditions and results). Culture change could evolve from public management reform. Inversely, culture changes result in public management changes. This ambiguity is one of the reasons why organisations face problems with dealing with organisational culture issues and their impact on performance. The main question is: where is the focal point of the processes that should be changed in order to improve performance? Do we need to invest in people so as to change their ‘mental models’ and then, subsequently, mechanisms of behaviour? Or is there a necessity to change the whole organisation in order to restrict and steer those ‘deeper’ mechanisms of human actions? Some insights come from research on the European Commission. Toth (2007, p.431) showed that, despite the commitment of Commission officials to European values and the Commission itself, their national cultural roots remain important as models of behaviour and values influencing their work as EU civil servants. Thus, even with a relatively high level of separation from national culture and local factors, we could still experience their impacts on personnel behaviour.

As noted above, cultural impacts have long-lasting effects and are not subject to instant change. Thus, even if organisational culture elements cannot be changed directly, it is important to understand their implications and how they influence organisational processes. In other words, while it may be
necessary to accept that immediate changes in effect in culture cannot be effected, it is still worthwhile understanding what the cultural effects are in the system as a whole or in a single organisation. As a result, ACB should be an iterative process which will make use of learning-loops and eventually lead to the creation of self-learning developmental organisational culture.

5.3 Organisational structure

Using IT terminology, if organisational culture is the “software” of an organisation, then organisational structure would be the “operating system”. There is a tendency in the literature to use constructivist metaphors to explain the nature and role of organisational structure. The ‘design of an organisation’ or the ‘architecture of an organisation’ are two of the most common. These static metaphors could be misleading. The structures of administrative systems or policy systems or single organisation structures are not finite, rock-like constructions. Arguably, organisational structure is a configuration of the rules and roles in an organisation. Although some kinds of structures are more immutable than others, all are rather dynamic sets of processes than static forms.

As noted above, many authors have described the administrative reforms of the past 30 years as processes of constant decentralisation in many European countries. However, some studies show that this decentralisation in fact involves the multiplication of actors, rather than an abandonment of central state structures. As the work of Demmke et al (2006) has shown – see Figure 3 - most European countries are deemed to be rather centralised; the UK and particularly Sweden are the only exceptions. Why this is important in relation to ACB? Researchers tend to attribute better performance to more decentralised organisations and systems. Vengroff and Ben Salem (1992) have drawn an important relationship between decentralisation and the quality of governance in developing countries. In other terms, but with similar meaning, Moynihan and Pandey (2005) refer to evidence that centralisation of decision-making power is associated with lower organisational effectiveness.

Figure 3: Relationship between degree of centralisation and multi-actor involvement

Source: Demmke et al (2006:51)
This does not mean that decentralisation and ‘de-hierarchisation’ are panaceas for all capacity-building challenges. Although decentralisation may create pluralism, it can also produce conflicts between agents within a given system (Colomer, 1998, s. 49). In such cases, decentralisation evolves with competition rather than cooperation. Equally, it does not mean that centralisation is free of such obstacles. Evaluations of the Hungarian Cohesion policy implementation system have shown that even within highly centralised system actors tend to compete for limited resources.

With respect to the implementation systems for Cohesion policy or other territorial policies, Ferry's (2013) typology of MS administrative systems provides a reference framework which divides Member States into:

- federal countries with highly regionalised approaches (Austria, Belgium, Germany);
- regionalised unitary states, with significant devolution of regional policy functions (Spain, United Kingdom, Italy);
- decentralised unitary states, involving a high degree of regional-level implementation (France, Finland, Netherlands, Sweden, Poland, Czech Republic, Denmark); and
- unitary countries with limited or no regional-level implementation (Cyprus, Malta, Luxembourg, Greece, Portugal, Slovenia, Estonia, Latvia, Romania, Hungary, Ireland, Bulgaria).

Despite these general patterns, some countries have modified their main structures in response to wicked problems in administrative capacity, e.g. some Austrian Länder have shown insufficient technical and financial capacity for implementing programmes, leading to central State-Federal cooperation mechanisms being established to coordinate systems of implementation (Resch, 2010). The picture becomes even more complicated if sectoral policies co-financed with EU funds are taken into account.

Notions of decentralisation or centralisation refer mainly to the ‘whole-state’ administrative system. However, the organisational structures concept encompasses other organisational levels. By studying the implementation systems of innovation policies, Arnold and Boekholt (2003, p. 28) have distinguished between three political and institutional levels:

- the government and the cabinet (the level of ‘high politics’);
- the sectoral level of ministries, which is again subdivided into divisions and subdivisions; at this level, operational decisions about implementation, and implementation activities take place; and
- the agency level, which executes implementation tasks and has a certain degree of operational autonomy, i.e. freedom to decide on how to implement policies.

In analysing the implications of this division, reference needs to be made to the ‘span of control’. On the basis of a literature review, Bohte and Meier (2001) showed that span of control is a central concept for understanding organisational hierarchies, allocation of resources or internal communication and therefore could have significant implications for organisational performance. At the same time, the research which they conducted in US schools provides evidence that the impact of the span of control on performance varies with task difficulty having the biggest impact on moderately difficult tasks.
As a result of Cohesion policy reforms and deeper socio-economic integration processes, Member States have seen the emergence of new policy networks with different attributes (i.e. from small-scale networks of executive agencies to large, multi-agent nationwide networks composed of executive agencies, regional authorities and central government ministries) (Andreou 2010). If these complex organisations are combined with other features, such as processes of contracting out, agencification, use of external resources, it is obvious that one of the main challenges for modern public management are coordination issues.

The more diversified the system (namely the more levels and actors are engaged in achieving goals of the organisation), the more effort is needed to coordinate interrelated, yet to some extent autonomous actions. Painter’s (1981) classification of policy coordination objectives was developed in research conducted within the Australian administrative system (i.e. one of the countries where NPM reforms and the introduction of the ‘managerial’ approach were combined with keeping the ties between policy design and policy execution or service delivery):

- avoidance, or at least minimization, of duplication and overlap;
- avoidance of policy inconsistencies;
- minimisation of conflict, both bureaucratic and political;
- quest for coherence and cohesion and an agreed ordering of priorities; and
- promotion of a comprehensive or ‘whole government’ perspective against the constant advocacy of narrow, particularistic or sectoral perspectives.

How do these issues relate to administrative capacity building? The division of roles and tasks is often followed by the division of competencies. In centrally-oriented types of organisations there are tendencies to accumulate capabilities and capacities in central points of the system or single organisation.

Another important problem of structural divisions and hierarchies that has to be addressed while creating an ACB framework is the matter of ‘boundaries’ (Talbot, 2010, p. 46). In other words – where should attention be focused and where should policy efforts and resources be streamlined to achieve the goal of ACB? Should the focus be on the general level of the administrative system of each EU Member State or on the single policy system? Should functions like monitoring and evaluation be enhanced horizontally across the system or should narrow attention be given to single agent capabilities (namely organisations and their employees)? The other possible solution in ACB is to focus on macro processes, like coordination. Obviously, the literature does not provide one single answer. Some authors propose the gradual process of moving from solving individual and team level problems, through functional problems, up to nation-wide level challenges (McLean, 2005, p. 21).

### 5.4 Human Resources Management

In discussing human resources management in the public sector, Cohen (1993) stresses its central role in capacity building: “public sector capacity building seeks to strengthen targeted human resources (managerial, professional, and technical) in particular institutions and to provide those institutions with the means where by these resources can be marshalled and sustained effectively to perform planning, policy formulation, and implementation tasks throughout government on any priority topic”. As Fukuda-Parr et al (2002) underline, such definitions can be misleading by narrowing the understanding of administrative capacity only to individual capabilities.
Aucoin and Bakvis (2004, p.185) assert that key processes of HRM, namely recruitment, retention and development of staff, are often neglected in research. In recent years, very little attention has been given to employee turnover in public administration (Meier and Hicklin 2007). However, evaluation studies provide some understanding of the importance of these elements in EU Member State. For example, in Poland, the number of employees increased from fewer than 2,000 people in 2003 to more than 10,000 in 2013. Over this period, turnover rates were generally decreasing, but in several institution types this indicator peaked up to 15 percent year by year. Several evaluations showed that high turnover has had negative impacts on performance – it creates the leadership and knowledge gaps because those who leave are usually talented, experienced civil servants who seek jobs in private sector.

These evaluations tend to explain the high level of personnel turnover by lower salary rates compared to the private sector. In the literature on HRM in public sector, however, some research has downplayed the importance of salaries, showing that public service is not a simple career choice, but a kind of human attitude. For instance, Perry and Wise (1990) classified public service motives into three groups: rational, norm-based and affective (see Table 9).

**Table 9: Public service motives**

<table>
<thead>
<tr>
<th>Rational</th>
<th>Norm-based</th>
<th>Affective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in the process of policy formulation</td>
<td>A desire to serve the public interest</td>
<td>Commitment to program from a genuine conviction about social importance</td>
</tr>
<tr>
<td>Commitment to a public program because of personal identification</td>
<td>Loyalty to duty and to the government as a whole</td>
<td>Patriotism of benevolence</td>
</tr>
<tr>
<td>Advocacy for a special or private interest</td>
<td>Social equity</td>
<td></td>
</tr>
</tbody>
</table>

Source: Perry and Wise (1990:370)

Moreover, the authors also argued that in public sector organisations individual performance is positively related to public service motivation. This is important case for capacity-building process – it means that changing employees' behaviours, keeping them motivated, does not require huge additional investment in salaries. The individual performance of public employees with high levels of public service motivation can be managed effectively with less dependence on utilitarian incentives (Perry and Wise, 1990, pp. 370-371).

Motivation could also be increased and maintained with organisational and cultural tools rather than economic incentives. This process is strictly connected with the notion of effectiveness. From the early 1990s a shift in personnel management has been observed. Organisations moved from treating staff as resources towards processes of engagement and empowerment (Talbot, 2010, p. 159). These processes lead to a ‘special vision’ of civil servants in public organisations. There is a tendency to address HRM problems using the stakeholder-framework, rather than with narrow, managerial tools. Public institutions are becoming more aware of the role of employees’ views, morale, opinions, desires and needs. This process is a re-orientation from a narrow ‘management tasks’ to broader ‘internal-stakeholders’ approach.

This does not mean that all reforms in human resources management were carried out according to the above-mentioned path. Looking at general changes in public service reform, Aucoin and Bakvis
(2005, pp. 186–187) noted that public service reforms were mostly results of the NPM shift. Those reforms included *inter alia*:

- introduction of fixed-term contracts with performance-related pay schemes;
- conversion of the closed, career-ladder system to open internal competition and external recruitment from the labour market for positions beyond entry level and technical specialist positions;
- accountability of managers for their performance in the delivery of outputs/outcomes/results;
- elimination of the uniformity of the public service, adoption of department- or agency-specific staffing and human resource management regimes; and
- fragmentation through increased organisational specialization, with a larger number of single-purpose or mission-specific organisations – as a result of government efforts to promote an operational focus on organisational productivity.

In analysing these dimensions, it is evident that European public administrations are moving towards more demanding internal environments for civil servants. This has been emphasised by Demmke (2012) who claims that profound changes are underway in terms of employment security and consistency. Although enhanced job security for civil servants still persists, flexible contracts or precarious employment arrangements are being introduced as well as freezes or reductions of salaries. This shows that ACB has another challenging issue to overcome.

### 5.5 Implications for the study of ACB

What are the implications of the above mentioned processes for the study of administrative capacity and administrative capacity-building? In the previous sections, we have noted that public organisations are complex entities. Performance is affected not only by internal factors (structures, HRM, systems and tools), but also by increasingly important external and environmental factors (the influence of culture, cooperation with various business and societal actors, coordination of policy efforts undertaken by external agencies, etc.).

The traditional model of the public policy cycle has some serious limitations, as the external factors are almost excluded from this framework. There is a need for more complex models, which will enable us to see the whole system of policy implementation (whether at European, country or regional levels), but at the same time ensuring we do not lose an operational perspective on single organisations and networks of organisations.

Moreover, we should bear in mind that, with dynamic networks of governance, administrative capacity building requires not only a strengthening of the internal capacity of public organisations, but also a strengthening of systems of coordination and quality control of network agencies, which are partly external to administrations.

### 6. THEORISING ACB IN THE COHESION POLICY DOMAIN

To gain a better understanding of the endogenous and exogenous outlined so far, we now turn to research on administrative law and organisational studies. As the following sections show, building on theories of bureaucratic control and performance, these studies have developed a model and
framework for investigation that are potentially useful in offering insights into the strategic interaction among key institutional actors and the external environment in which they operate.

The purpose of this section is to explore whether and how the frameworks developed by scholars in fields such as administrative law, organisational studies and HRM can be applied to our study. Investigations in the above disciplines have applied rational choice theories to explain the distinctive features of the administrative process, specifically, the interaction between three institutional actors: the legislator; the regulator; and the courts. Methods and insights proceeding from these studies can help us identify the elements (and the relationships among these elements) that need to be considered for our analysis. They can also be useful to gain a deeper understanding of the strategic interactions taking place among key institutional players and the environment in which their actions unfold. However, we note that system thinking theories lend themselves better to analysing dynamic, complex and multilayer entities, as in the case of Cohesion policy delivery system.

The following sections present the institutional approach to bureaucracy. This has used game theory to gradually develop more complete theories of bureaucracy. It then moves on to discuss system thinking theories and outlines relevant implications for the study.

6.1 Theories of bureaucracy

Researchers in fields as diverse as administrative law, organisational studies and human resources management, have developed models to explain cross-national variation in administrative arrangements and have sought to explain the sources of variation systematically (e.g. Horn, 1995; Garoupa and Mathews, 2014). In a recent article, Garoupa and Mathews (2014) identify important variations in the way regulatory agencies comply with statutes and courts deal with administrative disputes across jurisdictions. Three features are at the centre of their investigation: (i) legislative practices of delegation to agencies; (ii) the exercise of discretion by agencies; and (iii) the application of deference by reviewing courts to agency actions. They show that these features of an administrative system are connected to one another in ways that are shaped by the institutional environment, particularly variations in the structure of legal and political systems. These scholars draw from political economy theories, according to which institutional arrangements are the product of competition among interested stakeholders. The fixed features of the institutional landscape, in turn, shape competition. With a view to explaining the sources of variation in administrative law regimes, the study looks at the interaction among three institutions - the legislature, the agency and the court. The legislature is in charge of designing a policy that is subsequently implemented by the agency, while the task of the court involves reviewing the agency’s implementation of a given policy. The role of each player is conceptualised in terms of principal-agent theory. A principal (the legislature), appoints an agent (the agency) to perform a task (the execution of a statute); and it sets up a monitor (the court) to supervise the performance of the agency. While each of these actors has one or more options to choose from on how it will perform its tasks, the payoffs from a given choice are generated by that choice itself as well as by the choices made by the other institutions.

In addition, the choices of these actors are shaped by exogenous factors such as whether a country’s government is divided, the extent of decentralisation and federalism, the party structure, the type of political system (presidential vs. parliamentary system) as well as the key features of legal institutions (legal origin and the presence of specialised jurisdiction in administrative law. These broader political
and constitutional elements constitute the environment in which actors operate and can constrain their moves as well as determine the payoffs of these moves.

Similarly, organisational studies, have sought to explain the sources of an agency's capacity and the way in which the latter affects policy-making. Ting (2009, p.1), argues that the quality and the extent of a law's implementation are of primary concern: beyond the passage of legislation, outcomes depends on the relevant agency’s capacity (e.g. training and allocation of personnel; its collection of data, handling of the rule-making process, etc.). These activities are components of an agency’s organisational capacity, which plays a key role in the success or failure of policies. In fact, it might determine whether programmes are ultimately completed, regulations are enforces, benefits are distributed. To explain the degree of variation in organisational capacity across agencies, Ting argues that the origins of capacity arise from within the bureaucracy. To be more specific, agencies decide to invest strategically in capabilities, which, in turn, can shape both the choice of legislative policies as well as their implementation. The rationale behind the idea of endogenous capacity is that, in an institutional landscape where capacity can affect outcomes that are relevant to politicians, bureaucrats choose to invest in this capacity to shape those outcomes in preferred ways. In other words, organisational capacity gives the agency a technological advantage over its principal. As in the case of the literature on administrative law examined above, the point of departure of this investigation is that legislation is an “incomplete contract” for controlling bureaucracy. For a legislator it could be too costly to specify contractually ex-ante specific activities; thus, critical implementation details might be left unspecified. According to Ting, this is precisely the source of an agency's agenda power: although a legislative statute can specify a policy (e.g. enforcement level or a scientific goal), the bureaucracy has a short-term monopoly over the technology governing its implementation, characterised by its investment in capacity, which is non-contractible.36

The methods and insights provided by these studies are useful for the study of administrative capacity and administrative capacity-building. In point of fact, the approach described above can help us shed light onto the key elements (and the relationship among these elements), that need to be considered in the framework of our analysis. However, the application of this model is of limited use if one seeks to fully grasp the complexity and diversity of interactions and outcomes taking place at different levels and stages of CP delivery.

Applying methods and insights from game theory, system thinking seems to be more successful in capturing the dynamic, complex and multi-layered reality of Cohesion policy.

### 6.2 Learning from system thinking theories

A promising source that can be potentially applied to our study is the system thinking approach. The latter is an attempt to analyse dynamic, complex and multilayered entities in a holistic way (Anderson and Johnson,1997; Sterman, 2000). Initially system theories have been developed in the field of biology (e.g. Bertalanffy, 1949), cybernetics (e.g. Wiener, 1948) and weather prediction. In the mid-20 century system thinking started to be applied for the analysis of social phenomena including dynamics of social groups, organizations, legal systems. Currently, within the system thinking approach we can distinguish different schools of thoughts - cybernetic, general system theory, system dynamics, learning systems and complexity theory (Ramage and Shipp, 2009). Despite this variety of strands we

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36 This advantage disappears in the long-term as the principal learns the capacity technology and might renegotiate both capacity and policy.
can identify some key concepts common to all strands of system thinking research. First, system is defined as “[a] group of interacting, interrelated elements that form a complex coherently organized and unified whole. It produces a set of behaviours called ‘function’ or ‘purpose’” (Anderson and Johnson, 1997; Meadows, 2008). What distinguishes systems from each other are "boundaries" marked by the extent of system control (Kim, 1999). Second, systems are nested in an environment (a certain context), which can itself be part of a bigger system. Thanks to this concept analysis can be applied on different, interconnected levels, zooming out to larger entity or zooming in to explore a subsystem (Senge, 1990; Sterman, 2000). Third, each system - its condition and performance - relies heavily on its stocks and flows between system and its environment. The former one are accumulation of things, materials, information, resources that build up in the system over time. While the latter are defined as interactions and actions that mobilize stocks and changes their level over time (Anderson and Johnson, 1997; Meadows, 2008). Specific types of flows are "Feedback loops". These are outputs of the system that return to it from its environment, bringing information about system performance and, in turn, over time, changing the balance in the system (Anderson, 2006; Thornton, 2006; Sessa and London, 2006).

Fourth, the effects of the system can be understood only through its dynamics and a combination of different factors, some of which are delayed over time or coming from a different location. Thus, the behaviour of systems is analysed in a dynamic way with a use of such concepts as: ‘trends’ (changes in stocks and flows that can be observed over time), ‘patterns’ (behaviours that repeat in time), ‘events and factors’ (incidental occurrences that influence trends in stocks and flows) and ‘mechanisms’ (deep processes that underlie system behaviour and causes repeated trends and patterns of behaviour). System thinking approach formed a conceptual basis for two other approaches that can be very relevant in understanding institutional dynamics of Cohesion Policy. The first one is the groundbreaking work of Elinor Ostrom on institutional dynamics and diversity of social institutions (Ostrom, 2005, 2010). Her IAD framework (Institutional Analysis and Development) has been successfully applied across the world to the analysis of complex human, social and organizational interactions in the field of management of the commons (mainly environmental resources). The second approach is behavioural analysis in organizations and in particular organizational learning (Cyert and March, 1963; Argyris and Schon, 1978). This strand focuses on how interaction between the organizations and its environment, followed by the reflection about observed performance lead to adaptation and change, in other words - learning (Argyris and Schon, 1995; Crossan et al., 1999; LeVitt and March, 1988).

Overall, system thinking appears to be better suited than the theories of bureaucracy described above to capture the dynamic, complex and multi-layered reality of Cohesion policy. Indeed, as pointed out by Meier and Hill (2005), one of the major limitations of the principal-agent model is the assertion that all relationships can be reduced to contractual ones. Specifically, the oversimplification of interrelations means that this models results being of limited practical values in shedding light onto policy dynamics as they unfold on the ground. Furthermore, in complex governance system, empirical researches are not conclusive in establishing who among multiple political principals assume a dominant position within the relationship with the bureaucratic agent (see for instance Kerwin, 2003 on rulemaking).
6.3 Applying an interdisciplinary approach to conceptualise and operationalise AC and ACB

The study of administrative capacity and administrative capacity-building can benefit from the conceptualisation and models presented above in several ways. First, rational choice theories of bureaucracy can help us gain a deeper understanding of the choices made by key policy actors, their strategic interaction and the way and the extent to which their moves are shaped by the environment in which they operate. Through this model, we can thus gain important insights into aspects such as why key actors, in charge of governing Cohesion policy, faced with an identical set of possible strategies, choose different responses. Could the latter aspect be, for example, a function of the different bundles of institutional factors available to them (e.g. the environment in which they operate)?

In addition, this approach can help us identify and conceptually differentiate the key players and elements of the system, namely:

- **Actors involved in the administration of Cohesion policy**: namely the European Commission and various administrative capacity-building bodies (the multiple principals); the administrative bodies at the regional and local level (the agents).
- **The environmental landscape within which these actors operate**: the EU implementation model is interpreted through the prism of the specific national, regional and local context (e.g. political, socio-economic, legal, cultural, etc.), where a high degree of variation in terms adaptations can be observed.
- **Rules and procedures**: refer to the tools of implementation which are interpreted and used differently in each context. In the case of Cohesion policy, these are management tools that have been developed and that have, over time, become synonymous with the implementation of the Structural Funds (e.g. programming, monitoring, evaluation, financial management and control).

At the same time, limitations to the replicability of this approach for the purpose of our study must be noted. First, the examples provided in the literature presented above do not deal specifically with our topic of interest. In particular the processes they describe by applying the principal-agent model, cannot be fully employed and do not fully match the dynamics behind the administration of Cohesion policy (e.g. decision-making preceding policy-implementation are more complex in a multi-level governance scenario, as it is the case in the EU). As far as Cohesion policy is concerned, the implementation of the Funds is based on a set of obligatory requirements and guidance documents that govern the whole policy system, from programming to monitoring and evaluation procedures. However, despite the fact that all Member States are obliged to apply a common regulatory framework, implementation mechanisms for the delivery of the Funds vary significantly. For instance, in each Member State, national and sub-national actors have different levels of participation in decision-making and power. This reflect factors such as distribution of competencies between different tiers of government, political interests, number and scope of programmes to be dealt with, experience in managing economic development, etc. (ÖIR, 2003). It follows that practical arrangements, such as approaches to programme development, project generation, appraisal, selection, monitoring, also vary (Bachtler et al., 1999).
On the other hand system thinking theories appear to be more suitable for the analysis of the Cohesion policy delivery system. In particular, the application of system thinking (and especially adaptation of the IAD framework and organizational learning) could be beneficial in four ways. It would connect extensive, process-oriented practice of Cohesion Policy with a wider body of modern theories of management and institutional development. It would tackle the problem of system complexity by zooming in on analysis between different levels of delivery while keeping a systemic view on interdependencies. It would provide an evolutionary view on delivery systems and helps to analyse capacity development over time. Finally, it would offer a robust but flexible framework for exploration, comparison, and evaluation of performance between programs and regional and national systems. This could help practitioners to understand what actions should be undertaken to effectively improve the better use of Structural Funds programmes.

Drawing on what we have learnt from the body of literature presented so far, Paper 2 will present our research questions, hypothesis and methodology. The three elements outlined above, namely governance dimensions, administrative capacity and administrative capacity-building will be operationalised by adapting an innovative model originally developed by Olejniczak (2013), which will be strategically adapted to fit the purpose and meet the objectives of our research. Specifically, we will cluster the key processes carried out in the different stages of the policy life cycle into three groups, namely strategic, learning and operational processes. These, in turn, will be combined with a set of variables: personnel, structures, financial and technical resources, considered to play a major role in each of these key stages. The objective is to assess the role the latter plays with respect to the former.

In addition the innovation we add to the model developed by Olejniczak (2013) is to include the exogenous dimension; specifically, we propose to include quality of government variables to see how the latter might influence the endogenous dimension described above. This approach will help us determine what causes variation in the level of AC and to assess whether relevant patterns across certain regions or countries can be found. Having identified the latter, it will be possible to develop tailor-made capacity-building recommendations, that escape the logic of one-size fits all approach. These recommendations will be built on a solid foundation, taking into account the specific context within which actors operate.

7. CONCLUSIONS

This paper has provided a critical review of the academic and policy literatures addressing the topic of good governance or quality of government, administrative capacity and administrative capacity-building. The overall objective of this research has been to take stock of existing knowledge and identify gaps in the literature and, at the same time, outlining the future direction of our research. We have shown that in order to produce policy-relevant recommendations on how to improve the administrative capacity at national and regional levels, it is important to first gain a deeper understanding of the nature of the problems experienced by the relevant actors in charge of implementing and administering Cohesion policy. In particular, we have argued that institutional factors cannot be overlooked, as the expanding literature on quality of institutions and the return of investments has shown.
An important scientific contribution of this paper is that it has addressed three dimensions, namely QoG, administrative capacity and administrative capacity-building, which have, so far, been analysed and investigated separately. We have explained the rationale behind the need to link these dimensions to one another: only by exploring this strategic interaction will we be able to gain a more realistic understanding of what constitute administrative capacity for managing and implementing Cohesion policy and, consequently, how tailor-made ACB interventions can be designed to ensure that the relevant capacities be built and sustained.

In addition, this review serves as a basis on which we will be build our second paper, in which we will present the relevant research questions, hypothesis and methodology. Here, as noted in the previous section, the theoretical implications outlined will be empirically tested by using an innovative model which will be strategically adapted to fit the purpose and meet the objectives of our research.
ANNEX 1

GLOSSARY

The academic and policy literatures on governance and administrative capacity use many definitions of key terms. As a starting point for the literature review, we have proposed to use the following definitions which apply for the remainder of this paper.37

*Governance* is defined as “the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kaufmann et al, 1999).

*Quality of Government (QoG)* will here be defined as “when implementing laws and policies, government officials shall not take anything about the citizen or case into consideration that is not beforehand stipulated in the policy or the law” (Rothstein and Teorell, 2008).

*Public administration* refers to the “aggregate machinery (policies, rules, procedures, systems, organisational structures, personnel, etc.) funded by the state budget and in charge of the management and direction of the affairs of the executive government, and its interaction with other stakeholders in the state, society and external environment” (UNDP, 2003).

*Administrative reform* means “an induced, permanent improvement in administration” (Wallis, 1989).

*Institutional capacity* is seen to include the capacities of society more widely, including the public sector, non-governmental organisations and, sometimes, also the private sector (UNDP, 2009).

*Absorption capacity* in Cohesion policy is defined as “the extent to which a Member State is able to fully spend the allocated financial resources from the SF in an effective and efficient way” (Netherlands Economic Institute, 2002).

*Institution building* follows the definition formulated by the EC, according to which “institution building means adapting and strengthening democratic institutions, public administration and organisations so that, once adopted, EU legislation or the national equivalent is properly implemented and enforced. This requires development of the necessary structures, human resources and management skills” (Commission of the European Communities, 1999).

*Administrative capacity* is generally defined as the ability to perform functions, solve problems, set goals, and achieve objectives (e.g. Janicke, 2001, Fukuda-Parr et al., 2002; Milio, 2007).

*Administrative capacity-building* follows the World Bank’s definition according to which “capacity is the combination of people, institutions and practices that permits countries to reach their development goals (…) Capacity building is investment in human capital, institutions and practices” (World Bank 1998).

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37 The definitions are drawn on functions and practices rather than consolidated theories with coherent and comprehensive analytical frameworks able to integrate concepts as different as good governance, quality of government and administrative capacity.
**Horizontal interventions** are “interventions that tend to apply to the whole of government and are rather enablers of good government. Horizontal interventions relate to a clearly fundamental or ‘back bone’ process usually characterised by minimum performance criteria of an administration across several public bodies (Ecorys, 2011).

**Vertical interventions** are “interventions that tend to apply to particular sectors of government, and aim to provide benefits to specific target groups” (Ecorys, 2011).

These definitions are widely used in studies investigating various aspects of Cohesion policy. However, there is a clear absence of an analytical and theoretical framework, which keeps all these definitions together.
ANNEX TABLES

Table A.1 Lessons from World Bank efforts in the area of PFM and CSA

<table>
<thead>
<tr>
<th>Enabling/success factors</th>
<th>Inhibitor factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PFM</strong></td>
<td></td>
</tr>
<tr>
<td>Support for basic public finance building blocks (e.g. improved budgeting, accounting, funds management).</td>
<td>Introduction of overly complex systems leading to problems at various stages, notably in procurement and implementation.</td>
</tr>
<tr>
<td>A more incremental approach is more likely to lead to favourable results (e.g. starting with core treasury systems and a general ledger and then building broader capacity).</td>
<td></td>
</tr>
<tr>
<td>Successful adoption of financial management information technology systems is more likely when sufficient commitment, capacity and resources are present.</td>
<td>When low capacity is present, the main benefit from information technology has been ensuring more systematic adherence to financial rules by manual systems, with the older systems running in parallel to technology-based systems.</td>
</tr>
<tr>
<td></td>
<td>Lack of political commitment to reform and continuity over the implementation period, can negatively influence even the most uncontroversial measures (e.g. introduction of new data systems). Resources can be reallocated elsewhere or projects delayed due to staff turnover.</td>
</tr>
<tr>
<td></td>
<td>Changes in political leadership, the persistence of patronage systems and politicisation of the bureaucracy are also highlighted. These can result in decisions to finish, reverse or dilute reforms in this field, particularly those affecting pay, recruitment, promotion and downsizing.</td>
</tr>
<tr>
<td><strong>CSA</strong></td>
<td></td>
</tr>
<tr>
<td>Strong and coherent technical and contextual analysis (preface reform design with an assessment of the institutional and administrative context of a given territory and analyses understanding labour market conditions are reported to have been an important part of successful contextual analyses).</td>
<td>Corruption, changes in political leadership, patronage systems, politicisation of the bureaucracy.</td>
</tr>
<tr>
<td>Taking a pragmatic approach, whereby measures attempt to shift existing practices rather than attempt an all-or-nothing change.</td>
<td></td>
</tr>
<tr>
<td>Production of tangible indicators of success/standardised performance measures.</td>
<td></td>
</tr>
</tbody>
</table>

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38 IEG 2008 report discusses the case of Guyana. Here the installation of overly complex systems has led to problems at various stages of procurement and implementation. In addition, the report highlights that advanced financial management information systems, as the one set up in the Republic of Yemen, might be difficult to sustain due to low capacity environment.

39 An early innovation in this field was Bolivia's 1990 Financial Management and Control Law. This was enacted after pressures from the Bank and other donors and sought to improve the performance of the public sector by switching to a more modern, decentralised, results-oriented system (IEG, 2008 p.4). However, it lacked sufficient incentives for public officials to enforce it, leading to annual operating plan being undertaken as a ritual and ignored in the programming and resource allocation phases (Dove, 2002).

40 These are hard to identify but represent a more transparent method for demonstrating progress in implementation. In Albania, for instance, the Bank supported the development of civil-service related measures such as the percentage of recruitment done by merit that is tracked on a regular basis the government.
Table A.2 Thematic Objective 11 - Relevant provisions on AC and ACB in the EU legislation for the 2014-2020 period

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Provisions Regulation (No 1303/2013)</td>
<td>Article 9 (11): “Enhancing institutional capacity of public authorities and stakeholders and efficient public administration”.</td>
</tr>
<tr>
<td>ESF (No 1304/2013)</td>
<td>Article 3 d. Scope of support: (i) Investment in institutional capacity and in the efficiency of public administrations and public services at the national, regional and local levels, with a view to reforms, better regulations and good governance; (ii) Capacity-building for all stakeholders delivering education, lifelong learning, training and employment and social policies, including through sectoral and territorial pacts to mobilise for reform at the national, regional and local levels”.</td>
</tr>
<tr>
<td>ERDF (No 1301/2013)</td>
<td>Article 3. Scope of support: 1 (f) Networking cooperation and exchange of experience between competent regional, local, urban, and other public authorities, economic and social partners and relevant bodies representing civil society, referred to in Article 5 (1) of Regulation (EU) No 1303/2013, studies, preparatory actions and capacity-building”. Article 5. Investment priorities: (11) Enhancing institutional capacity of public authorities and stakeholders and efficient public administration through actions to strengthen the institutional capacity and the efficiency of public administrations and public services related to the implementation of the ERDF, and in support of actions under the ESF to strengthen the institutional capacity and the efficiency of public administration”.</td>
</tr>
<tr>
<td>European Territorial Cooperation Regulation (No 1299/2013)</td>
<td>Article 7. Investment priorities: (a) under cross-border cooperation (iv) enhancing institutional capacity of public authorities and stakeholders and an efficient public administration by promoting legal and administrative cooperation and cooperation between citizens and institutions; (b) under transnational cooperation: enhancing institutional capacity of public authorities and stakeholders and an efficient public administration by developing and coordinating macro-regional and sea-basin strategies.</td>
</tr>
</tbody>
</table>

Table A.3 ESF administrative capacity issue 1: weak structures

<table>
<thead>
<tr>
<th>Gap/Problem</th>
<th>Targeted by ESF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of coordination policies/strategies</td>
<td>This issues is addressed in several case study countries</td>
</tr>
<tr>
<td>Duplication and or fragmentation competences at various levels</td>
<td>Targeted by measures supporting self-government or decentralisation and by measures that define the administrative functions and specific actions on legislation in different case studies</td>
</tr>
<tr>
<td>Lack of analysis/strategic planning</td>
<td>This issues is addresses in several case study countries</td>
</tr>
<tr>
<td>Partnership consultation</td>
<td>This issue is addressed in several case study countries</td>
</tr>
<tr>
<td>Conflicting and complex frameworks</td>
<td>Targeted by measures supporting self-government or decentralisation and by measures that define the administrative functions and specific actions on legislation in different case studies</td>
</tr>
<tr>
<td>Lack of horizontal integration</td>
<td>Addressed by measures directed to cooperation/coordination</td>
</tr>
<tr>
<td>Overlaps in competences</td>
<td>Partly targeted by measures supporting self-government or decentralisation and by measures that define the administrative functions as well as specific interventions on legislation</td>
</tr>
<tr>
<td>Poor links between policy-making and delivery</td>
<td>In some cases targeted (especially in relation to OP management)</td>
</tr>
</tbody>
</table>

Assessment of relevance of ESF intervention

- Strong ESF response to support stronger cooperation and management structures
- Effective governance is hardly or not addressed by ESF. Measures are either isolated or specific
- Partially addressed by ESF
- Strongly influenced by ESF
- Partially influenced by ESF (public administration policies and strategies as well as creating stronger structures through legislation)
- Strong ESF response to this problem

Source: Ecorys (2011) pp. 70
Table A.4 ESF administrative capacity issue 2: Human resources

<table>
<thead>
<tr>
<th>Gap/Problem</th>
<th>Targeted by ESF</th>
<th>Assessment of relevance of ESF intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competence gaps</td>
<td>Targeted by training</td>
<td>Strong and relevant ESF response</td>
</tr>
<tr>
<td>Skills for management reform</td>
<td>No specific measures</td>
<td>Partial ESF response through the enhancement of HR</td>
</tr>
<tr>
<td>Coherent HR policies</td>
<td>Strategy/policy formulation is targeted by ESF, but enforcement is an issue that is difficult to address</td>
<td>Partial and relevant ESF response</td>
</tr>
<tr>
<td>Poor retention of staff</td>
<td>Difficult to address, strategy formulation could be supportive</td>
<td>Limited or no ESF response to this problem</td>
</tr>
<tr>
<td>Low motivation</td>
<td>Difficult to address through ESF</td>
<td>Limited or no ESF response to this problem</td>
</tr>
<tr>
<td>Staff turnover due to competition with private sector</td>
<td>Difficult to address through ESF</td>
<td>Limited or no ESF response to this problem</td>
</tr>
<tr>
<td>Low effectiveness of training</td>
<td>Not addressed</td>
<td>Limited or no ESF response to this problem</td>
</tr>
<tr>
<td>Understaffing</td>
<td>Difficult to address through ESF</td>
<td>Limited or no ESF response to this problem</td>
</tr>
</tbody>
</table>

Source: Ecorys (2011) pp. 71

Table A.5 ESF administrative capacity issue 3: Systems and tools

<table>
<thead>
<tr>
<th>Gap/Problem</th>
<th>Targeted by ESF</th>
<th>Assessment of relevance of ESF intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systems and tools</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of impact assessment tools</td>
<td>Limited under category 81 but addressed under other categories</td>
<td>Relevant ESF response</td>
</tr>
<tr>
<td>Limited use of evaluations and monitoring information systems</td>
<td>Limited under category 81 but addressed under other categories</td>
<td>Relevant ESF response</td>
</tr>
<tr>
<td>Limited use of ICT</td>
<td>Limited under category 81 but addressed under other categories</td>
<td>Relevant ESF response</td>
</tr>
<tr>
<td>Insufficient e-governance</td>
<td>Limited under category 81 but addressed under other categories</td>
<td>Relevant ESF response</td>
</tr>
</tbody>
</table>

Source: Ecorys (2011) pp. 72

Box A.1 IO’s - Some key success factors in combating corruption

Factors contributing to better performance:

- realism about what is feasible (time it takes to get significant results);
- understand the political context;
- identify prerequisites to achieve the objectives (importance of recognising the long-term process required to reduce corruption and the different starting points of countries);
- focus on the basic reforms that a country needs in its initial situation;
- attention to behaviour and organisational culture as well as incentives that are underlying drivers of reform.

Main recommendations:

- recognition of the complex political issues in the design of projects and allocation of resources;
- setting priorities for anticorruption efforts within country’s PSR strategies based on assessment of which types of corruption are most harmful to poverty reduction and growth;
- importance to adopt a country specific approach;
- government ownership and political will, time and patience for organisational culture and behavioural changes are emphasised.
BIBLIOGRAPHY


Arnold, E. and Boekholt, P. (2003) Research and innovation governance in eight Countries: A Meta-Analysis of Work funded by EZ (Netherlands) and RCN (Norway), Technolopolis, Brighton.


