European Committee of the Regions

Commission for Economic Policy (ECON)

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Stakeholders' consultation in view of the CoR opinion on

Improving administrative capacity of local and regional authorities to strengthen investments and structural reforms in 2021-2027

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Background note and questions for discussion

Reasons for this opinion

The quality of the public administration determines how public policies are delivered, with profound influences on growth and the well-being of society. Differences in the quality of the public administration can therefore help to explain differences between countries and regions in levels of development, living conditions and political legitimacy[1].

In the Annual Growth Survey opening the 2019 European Semester[2], the European Commission emphasised that well-performing public institutions contribute to higher growth and are a precondition for the successful delivery of other reforms and for delivering the EU's treaty obligations and goals.

The 2019 AGS stresses that institutional quality "includes elements related to the effectiveness of the public administration, the degree of digitisation of public services, the quality and stability of the regulatory environment, the fight against corruption and respect for the rule of law. All these aspects, which have an impact on investment decisions, could be improved by sharing and implementing EU best practices more widely. Member States should also focus more systematically on the quality of governance[3] and actively address shortcomings"; moreover, the rule of law, effective justice systems and robust anti-corruption frameworks are crucial to attracting business and enabling economic growth.

Yet, institutional quality is largely dependent upon the organisations, resources and functions of the public administration, the design of its systems and procedures, the engagement of its capable staff and their interaction with citizens, enterprises, civil society and other administrations. In order to strengthen the public administration, it is crucial to *invest in administrative capacity*.

There is some debate on how to define administrative capacity[4]. The OECD views capacity as the "ability to perform functions, solve problems, set and achieve objectives[5]", thus highlighting its systemic nature. For instance, increasing the level of human resources or strengthening organisations, while necessary, may not be enough to improve administrative capacity. The way individuals and organisations interact both in the public sector and within society may be more relevant to the overall level of capacity. The terms "administrative capacity" and "institutional capacity" are often used interchangeably; however, the former focuses on how institutions work and the latter on how institutions network with each other.

[1] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/thematic-factsheets/public-administration_en
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1547650919951&uri=CELEX%3A52018DC0770
[3] The Quality of Government Institute, which is responsible for the creation of the European Quality of Government Index (EQI) distinguishes four components of the idea of quality of governance: a) rule of law; b) corruption; c) quality of the bureaucracy or bureaucratic effectiveness; and d) democracy and the strength of electoral institutions. See https://ec.europa.eu/regional_policy/en/information/maps/quality_of_governance
[4] Neculai-Cristian Surubaru (2017) Administrative capacity or quality of political governance? EU Cohesion Policy in the new Europe, 2007–13, Regional Studies, 51:6, 844-856, DOI: 10.1080/00343404.2016.1246798
[5] http://www.oecd.org/env/cc/21018790.pdf

In view of the forthcoming MFF 2021-2027, and following calls made in several recent opinions and resolutions, the European Committee of the Regions has decided to issue an own initiative opinion. The opinion will highlight, in particular, that cities and regions did not adequately use EU-funded capacity-building measures under the current MFF and that the new MFF should address the administrative capacity challenge in a more effective manner.

Administrative capacity at regional and local level matters

The current division of powers across levels of government[6] gives local and regional authorities a crucial role in the fields of investment and structural reforms, which are key priorities of the European Semester.

The CoR stresses that local and regional authorities are responsible for 58% of public direct investments related to the Europe 2020 goals[7], while the OECD highlights that sub-national governments are accountable for almost two-thirds of public investments[8]. Additionally, a study of the Council of European Municipalities and Regions has stressed out that over 60% of the decisions taken at the European level have a direct impact on municipalities, provinces[9].

The CoR found that, in 2018, 36% of all territory-related CSRs[10] were directly addressed to LRAs, up to 2% in 2017[11]. Considering also the recommendations involving LRAs indirectly and those not involving them but having a differentiated territorial impact, 83% of all CSRs were territory-related in 2018.

Capacity-building involving cities and regions is the main aim of 36% of all 2018 CSRs, and an indirect aim of another 22% of them[12], mainly concerning the labour market, education and social policies, the public administration itself and the business environment.

To address the CSR's poor implementation record and weak ownership at country level, the CoR argued for a systemic and structured involved of the LRAs as partners, suggesting a Code of Conduct[13].

A recent CoR study on obstacles to investment at local and regional level[14] has established the following categories of territory-related obstacles to investment[15]:

- Deficiencies in multilevel governance and public administration.

[6] http://portal.cor.europa.eu/divisionpowers/Pages/default.aspx
[7] https://cor.europa.eu/en/engage/studies/Documents/MFF_post%202020.pdf
[8] https://read.oecd-ilibrary.org/governance/investing-together_9789264197022-en#page20
[9] www.ccre.org/docs/Local_and_Regional_Government_in_Europe.EN.pdf
[10] The CoR defines as 'territory-related' a CSR which either is addressed (directly or indirectly) to local and regional authorities or concerns a reform which would not affect all regions in the same way. A CSR including several (sub) recommendations is territory-related if at least one (sub) recommendation is territory-related.
[11] http://portal.cor.europa.eu/europe2020/Documents/publi-file/2018-Territorial-Analysis-of-CSRs/2018_CSRs_draft_final.pdf
[12] http://portal.cor.europa.eu/europe2020/Documents/publi-file/2018-Territorial-Analysis-of-CSRs/2018_CSRs_draft_final.pdf
[13] https://webapi2016.cor.europa.eu/v1/documents/cor-2016-05386-00-00-ac-tra-en.docx/content; https://cor.europa.eu/en/engage/studies/Documents/Administrative-capacity/AdminCapacity.pdf
[14] https://portal.cor.europa.eu/europe2020/Documents/publi-file/2016-study-obstacles/obstacles-to-investments.pdf
[15] Territory-related obstacles to investment are those that (a) have a territorially differentiated impact within countries, (b) are relevant to the functions of the LRAs regarding investment, and (c) for which there is potential for the LRAs to contribute towards easing or removing them.

- Public procurement and Public Private Partnerships (PPP).
- Deficiencies in accessing and managing investment funds.
- Unfavourable business environment, due to burdensome regulations and procedures.
- Inadequate preconditions for investment

In respect to the public administration at local and regional level, the OECD[16] has found that the main capacity challenges for LRAs regarding public investments revolve around:

- The limited involvement of the private sector and the civil society
- Reduced fiscal capacity for public investment
- Absence of competitive salaries for public sector employees
- Lack of capability to administer public procurement, as confirmed also by a CoR-CEMR survey[17]
- Excess of administrative procedures and red tape.

Absorption capacity is a basic indicator of a country's ability of successfully spending its allocated share of the European Structural and Investment Funds (ESIF)[18]. It reflects the performance of public administrations at a central, regional and local level, in programmes' design, project evaluation, coordination between levels of government and other relevant partners, financing and implementation supervision, all of which implies the management of a large amount of administrative activities[19].

Absorption capacity differs profoundly between EU countries. Unsurprisingly, the biggest ESIF recipients are not necessarily also its biggest beneficiaries. Ultimately, the biggest challenges in terms of administrative capacity and, more generally, quality of the public administration, are in the Southern and Eastern parts of the EU.

The ongoing trend towards administrative and fiscal decentralisation[20] is yet another element putting administrative capacity under stress. Decentralisation is taking place in a context in which sub-national governments have to deal with the impact of globalisation, technological change and climate change, in a context of slow growth and fiscal constraints – and insufficient administrative capacity may make this challenge even more severe.

Capacity building in the current and the next MFF

Under the ESIF Funds, (a) Thematic Objective 11 (TO11) is entirely devoted to capacity building, with a financial envelope of €4.2 billion for the period of 2014-2020. TO11 supports structural reforms and the implementation of the CSRs. Despite the low amount of funding that ends up to LRAs (13%)[21], *TO11 remains the only tool under which LRAs are direct beneficiaries*. Moreover, (b) *Technical Assistance (TA)*

[16] https://read.oecd-ilibrary.org/governance/investing-together_9789264197022-en#page98
[17] https://cor.europa.eu/en/events/Documents/ECON/Bert_Kuby.pdf
[18]http://www.europarl.europa.eu/RegData/bibliotheque/briefing/2013/130544/LDM_BRI(2013)130544_REV1_EN.pdf
[19] https://www.tandfonline.com/doi/full/10.1080/1331677X.2017.1340174
[20] http://www.oecd.org/development/making-decentralisation-work-g2g9faa7-en.htm
[21] https://cor.europa.eu/en/engage/studies/Documents/Administrative-capacity/AdminCapacity.pdf

can be initiated by either Member States or the European Commission. Both tools have had limited impact on administrative-capacity building[22].

The Structural Reform Support Programme (SRSP), active in 2017- 2020, has a budget of €222.8 million to provide Member States with tailor-made technical assistance to improve administrative and institutional capacity, to facilitate the implementation of EU law and in particular the country-specific recommendations, to secure a more efficient use of EU funds and to introduce growth-enhancing structural reforms. It is entirely demand driven and does not require co-financing. According to a study commissioned by the CoR, consultations with SRSS suggest that "nearly 100%" of SRSP projects contribute to administrative capacity building"[23]. So far, though, there is scant sign that LRAs have benefited from the SRSP[24].

Other Instruments supporting capacity building as part of sectoral programmes are:

- Connecting Europe Facility – Promotion of growth through targeted infrastructure investment.
- Interoperability solutions for European public administrations – Cross-border digital services.
- Horizon2020 – Research and Innovation
- EU Justice Programme – Reform of the European Area of Justice
- European Commission / European Investment Bank (EIB). Several programmes in support of EU funds implementation, including FI-compass supporting the use of financial instruments, also in the context of the Invest EU Plan[25].

An assessment of the use of current EU-funded capacity-building tools by local and regional authorities and its perspectives for 2021-2027, commissioned by the CoR[26], painted a rather unsatisfactory picture, stressing that:

- LRAs may benefit of the SRSP only through their national governments, and there is no evidence that they did. After the discontinuing of the TO11, the LRAs will thus have no direct access to funds supporting capacity building.
- The financial resources of LRAs concerning capacity building are constantly being reduced and after the abolition of TO11 will eventually reach zero for the period 2021-2027[27].
- Funding for technical assistance under the new MFF will still be addressed to Member states. Simplification and centralisation, though potentially easing the task for member states, would leave little room for the LRAs, making them more dependent on national authorities.

Under the new MFF, the proposed Reform Support Program will support voluntary reform commitments of Member States with a financial envelope that far exceeds that of other EU capacity-building instruments

[22] On one hand, TA at the initiative of the Member States supports activities aimed at reinforcing the administrative capacity of institutions for implementing the Funds and not the transformation of the public administration. One the other hand, the Commission TA may be strongly linked to capacity building but LRAs are only indirect beneficiaries being recipients of TA through training, good practice sharing and other forms of support.

[23] https://cor.europa.eu/en/engage/studies/Documents/Administrative-capacity/AdminCapacity.pdf

[24] See the 9th CoR Monitoring Report of http://portal.cor.europa.eu/europe2020/Documents/publi-file/9th-monitoring-report/9thMonitoringReport.pdf

[25] https://europa.eu/investeu/home_en

[26] https://cor.europa.eu/en/engage/studies/Documents/Administrative-capacity/AdminCapacity.pdf

[27] The support for public administration that was going to LRAs has dropped from 28% under the ESF in 2007-2013 to 13% in 2014-2020 under the TO11.

- and requires no co-financing. The RSP "will not finance specific costs but will provide financial contributions to Member State budgets against milestone results agreed and achieved", which does not guarantee that actual support will be directed towards capacity building.

Questions for debate

Q1) Insufficient capacity of LRAs may concern human resources, systems and procedures, in-house technical competences, networking with external actors. It may result in failures in the field of investment (financial management, public-private partnerships, public procurement, regulatory environment for private investment), as well as in the provision of services to citizens (labour market, education, training, social policies, etc.)

► ***In what areas is capacity-building for LRAs more relevant and urgent?***

Q2) There is a sizeable and persistent gap between Member States in the quality of public administration: Southern and Eastern EU countries fare worse than the others.

► ***Why is this gap so persistent?***

► ***What would contribute most to reduce it?***

Q3) Public administration improvement is in the EU interest, but it is within the remits of the Member States. The EU can only support Member States by promoting peer reviews and exchanges of good practices, providing technical assistance and funding specific capacity-building projects.

► ***What can be done to successfully encourage Member States to engage in capacity building and in public administration reform?***

Q4) EU capacity building tools under the current MFF, including the SRSP, seem to have only marginally benefited LRAs.

► ***Is it because LRAs cannot have direct access to EU funding for capacity-building (apart from TO11)? Or is it that LRAs showed scant interest in EU support? Or both?***

Q5) The study commissioned by the CoR puts forward three kinds of proposals in view of the next MFF: 1) ensuring greater coherence and coordination between EU funding tools and processes, 2) setting EU-funded tools that can be directly accessed by LRAs, 3) setting tools for benchmarking, monitoring progress and assessing results in capacity building

► ***What contribution could come from these recommendations? What else could be done?***