

Coordinates of the Absorption Capacity of Structural and Cohesion Funds at EU Level

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Abstract: The structural and cohesion funds are considered an attractive instrument for the funding of investments opportunities especially in times of crisis when the private investments are reduced. Nevertheless, they have not been factually highlighted in order to empirically document the role of European funds in supporting the short-term economic growth, at macroeconomic level. The target of absorbing as much European financial non-refundable aid requires constant efforts made by the member states and administration authorities, the involvement of regional and local public administrations in each stage of the process, as well as an appropriate capacity of institutional structures and management and control systems, they being basic premises of this objective achievement.

Keywords: cohesion policy, absorption rate, rate of contraction, macroeconomic indicators, the rate of payment, financial funding programs, financial absorption capacity

JEL Classification: E03, E60, G01, H00, J1.

1. Introduction

In the context of efforts aimed at improving the competitiveness of the EU as a whole, European cohesion policy is the most important way to support the objective of convergence of Member States, namely to promote economic and social cohesion by reducing disparities starting at the regional level.

OECD defines absorption capacity as "the accumulation of adequate information dissemination, capacity building in local government and civil society to design and implement development projects" (OECD, 2006).

Although it is regarded as a parameter, in my opinion absorption capacity is a variable, it changing is considerably from one Member State to another depending on the evolution of the main macro and micro-economic and other factors is necessary to develop individual solutions specific to each state. The objective to absorb as much as a grant raises continuing efforts by Member States and regional and local administrations involved in each stage of the process of accessing European funds.

The issue of the impact of EU funds was dealt largely with the help of econometric models or simulations in order to quantify the growth of GDP, using comparative analysis of two scenarios, namely "European funds" and "without European funds". The models most often used are HERMIN (Bradley, 2007), QUEST model (Varga and Veld, 2010), the model GIMF (Allard, 2008), and others, applied only to certain countries. Based on optimistic assumptions, these models estimate the unanimat positive effects of European funds on growth. But some authors have reported that the inconsistency of results is mainly due to complex processes that characterize growth and convergence programs (Barca, 2009). In other cases it was concluded that methodological problems encountered are extremely difficult, only

estimates reflecting the impact of a possible compromise that could be but the capacity to absorb funds (Marzinotto, 2012).

In this paper trying to identify states that have made significant progress in terms of absorption of EU funds and issue a series of value judgments about the factors that influence ranking achieved. It should be noted that this study is based on statistical data related Multiannual Financial Plan 2007 - 2013, and its last reporting year 2013 performance can be recovered using European funds after 2015.

The data used for the case study are collected from portal official statistics of the European Union and "Eurostat", the website of the European Commission "InfoRegio" website "Inside America" and the official sites of the managing authorities of the Member analyzed.

2. The absorption of structural and cohesion funds in the Community

Absorption capacity leads to a strong performance of European funds only if the efficiency, economy and effectiveness are taken fully into account (Sumpikova et.al, 2004).

Often, absorptive capacity is understood as the extent to which a Member State is able to use the financial resources allocated from the Structural Funds in an effective and efficient manner. The performance, ie how they were used effectively and efficiently Structural Funds is considered a variable output that can be measured ex-post, ie at the end of the programming period. For the new accession countries, it is possible to achieve a theoretical performance evaluation based on the results obtained during pre-accession funds are used.

In 2002 the European Commission has developed a methodology that was used to evaluate the absorption capacity of the candidate countries. "Three steps need to be taken into consideration in touch with management of Structural Funds:

- Design, which appears as a variable input. The elements that define this stage creates the conditions for effective and efficient management of European funds. Design capability must be assessed by reference to the requirements resulting from regulations on the Structural Funds (Regulations Nos. 1260/1999 and 438/2001);
- Operation, ie the extent to which European funds are managed effectively and efficiently. This phase can not be measured in a candidate, but some clues about the future operation of the system can be extracted from the analysis of the use of pre-accession financial instruments;
- Performance, ie the extent to which structural and cohesion funds were managed effectively and efficiently. It is an output variable that measures the results. Performance can not be assessed only ex post at the end of the program period "(Oprescu, 2006, p. 10).

To sing the prerequisites necessary to ensure effective and efficient management practices on the use of EU funds, but also for performance is attempted use of funds, consider paying special attention needed programming of these funds.

It should be noted that these funds absorption of structural and cohesion is a process that depends on a number of factors, among which the most important are:

- architecture of financial funding programs (number of priorities, their content, managing authorities, intermediate bodies and final beneficiaries);
- the level of commitment (funds allocated to projects by management authorities);
- payments to beneficiaries in different stages of implementation.

Given the definition of absorption capacity mentioned above, I believe that this is mainly influenced by the ability to co-finance national budgets and beneficiaries of EU

funds packets EU and national legislation governing the European funding grants, and defining elements administrative management authorities to implement projects benefiting from EU financial support. In their view, Katsaitis and Doulos (2009) and Bahr (2008) points out that regional policy effectiveness depends crucially on the institutional environment in which it is implemented (national institutional environmental quality). According to the authors, effective use of structural and cohesion funds depends on their investment: to lead to efficient use of European fonduriloe, they must be invested in a way that stimulates economic growth.

Although structural funds should be invested, there is a reason that leads to an obvious question, namely whether they are used in a way that promotes economic growth indeed. First, most often structural funds and cohesion must be invested in projects predetermined not always ensure the promotion of economic growth, such as environmental projects. Secondly, while the co-financing requirement ensures that financial resources are actually invested, it can cause exclusion from public funding of other projects that need to be implemented. Financing requirements imposed at the EU level is an important factor influencing public and private decision makers optics on European funds and an essential element that determines financial absorption capacity of central and local public authorities. In this regard, I believe that to avoid substantial requirements for financial co-participation of Member accessing European funds because they can become a major impediment both to the action of accessing funding and implementation of projects or operational programs.

In terms of quality and availability of data on the absorption capacity of Structural Funds and Cohesion, in their opinion, Mohl and Hagen (2010) believes that there are several reasons for these mixed results, including the low quality of data on Structural Funds at regional level, a number of methodological problems and a time lag of up to five years before manifesting their impact. Katsaitis and Doulos (2009) highlighted as reasons for these differences factors such as the large gap in national prospects, different methodologies and a changing selection of erroneous samples and analytical tools. Dall'erba and Le Gallo (2008) also states that The finance support European significance in determining social and economic growth rates can be seen only in the long term.

Meanwhile, Crescenzi (2009) emphasizes that it is conceptually difficult to extract pure impact of structural funds amid domestic and external shocks hitting the economy simultaneously.

Regarding the absorption rate of structural and cohesion funds for the period 2007-2013, EU-28, the situation is presented in Table 1.

Table 1. The absorption rate of structural and cohesion funds in 2007-2013

	2007	2008	2009	2010	2011	2012	2013
Austria	-	-	11%	21%	32%	47%	64%
Belgia	-	-	11%	16%	25%	42%	63%
Bulgaria	-	-	-	6%	14%	27%	43%
Cipru	-	-	6%	17%	28%	35%	52%
Republica Cehă	-	-	3%	10%	17%	28%	47%
Germania	-	-	10%	21%	34%	47%	63%
Danemarca	-	-	4%	12%	31%	38%	47%
Estonia	-	-	10%	24%	31%	51%	71%
Spania	-	-	3%	15%	29%	45%	60%
Finlandaa	-	-	9%	18%	33%	47%	68%
Franta	-	-	6%	16%	27%	36%	54%
Grecia	-	-	3%	14%	27%	42%	62%

Croatia	-	-	-	1%	3%	7%	16%
Ungaria	-	-	4%	10%	24%	33%	49%
Irlanda	-	6%	16%	29%	41%	53%	63%
Italia	-	-	2%	8%	15%	25%	46%
Lituania	-	-	12%	23%	37%	52%	68%
Luxembourg	-	-	3%	9%	33%	44%	60%
Letonia	-	-	5%	14%	26%	42%	56%
Malta	-	-	-	8%	18%	28%	41%
Țările de Jos	-	-	1%	10%	26%	38%	58%
Polonia	-	-	4%	14%	28%	43%	59%
Portugalia	-	-	5%	18%	30%	52%	71%
România	-	-	1%	2%	6%	12%	27%
Suedia	-	-	9%	19%	39%	46%	61%
Slovenia	-	-	4%	15%	27%	41%	58%
Slovacia	-	-	1%	9%	18%	32%	47%
Marea Britanie	-	-	6%	20%	31%	43%	50%

Data source: Inforegio - EU Regional Policy - European Commission

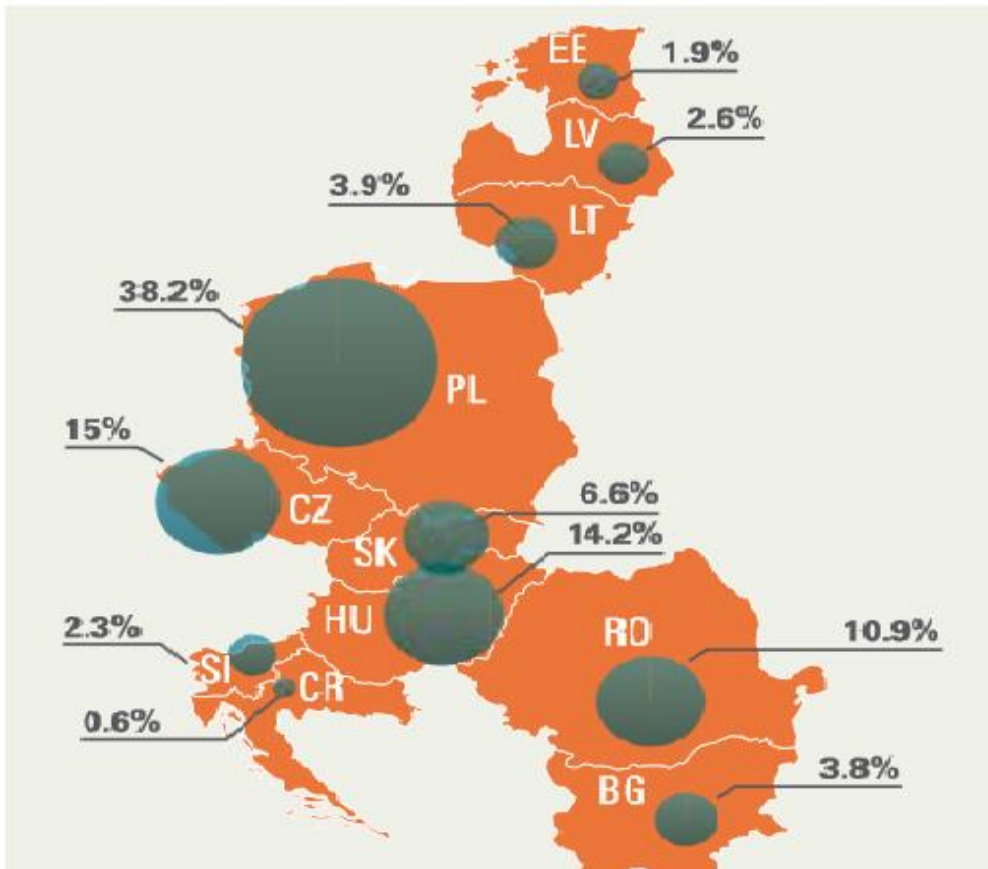
Developing an appropriate strategy, focused on structural and cohesion fund allocation is only a first, but a basic step for the implementation of EU Cohesion Policy. An example of this is the fact that Central and Eastern European countries that became EU members, Community co-financing has become an essential factor for their development, cohesion and structural funds representing 11.3% and 25 % of their annual GDP. This is one of the reasons that led to the shaping of an overview and comparison of the situation in the 11 Member States which joined the European Union in the period 2004-2013 the implementation stage programs co-financed by the Structural Funds and cohesion.

Table 2. The main macroeconomic indicators of countries in Central and Eastern Europe

	Bulgaria	Croația	Cehă	Estonia	Ungaria	Letonia	Lituania	Polonia	România	Slovacia	Slovenia
Populație (mil.)	7,28	4,26	10,52	1,32	9,91	2,02	2,97	38,53	20,06	5,41	2,06
PIB anual (mld. euro)	39,94	43,31	149,39	18,43	98,07	23,37	34,60	389,70	142,82	72,13	35,27
PIB/loc (euro)	5,486	10,163	4,206	13,800	9,898	11,548	11,650	10,113	7,121	13,333	17,140
Fonduri UE 2007-2013 (mld. euro)	6,67	1,00	26,30	3,40	24,92	4,54	6,77	67,19	19,18	11,65	4,10
Fonduri UE/loc (euro)	917	234	2,501	2,595	2,515	2,243	2,280	1,744	956	2,154	1,993
Fonduri UE/PIB (%)	16,7	2,3	17,6	18,5	25,4	19,4	19,6	17,2	13,4	16,2	11,6

Data source: own calculations based on data from Eurostat and websites Inforegio

In 2007-2013, the 11 Member States have reached the amount of 174.72 billion euros from EU funds, namely the ERDF, ESF and the CF, except national public contribution and the contributions of beneficiaries. This amount represents approximately 16.2% of the annual GDP of the region. In the table above are the main elements of national accounts in the region under analysis.



Source: EU Funds in Central and Eastern Europe - Progress Report 2007-2013, KPMG in Central and Eastern Europe, 2014, p. 11

Fig. 1. The allocation of EU funds by country 2007-2013

EU funding amount varies according to country as can be seen from Fig. 1 - the largest budget allocation is for Poland, which has the largest population among CEE countries. However, the Czech Republic, Estonia and Hungary have the highest value of European funds / capita. Poland and the Czech Republic accounted for more than 50% of European funds allocated and together with Hungary and Romania, the total amount of allocated funds constitute 80% of all European funds distributed for Central and Eastern Europe region. Countries with relatively small populations hold a total share of 20% of the total funds allocated to the region in 2007-2013.

After 7 years of implementation they were signed financing agreements totaling 169.44 billion euros in Central and Eastern Europe region, this amount representing approximately 97% of the planned budget for the 2007-2013 multiannual financial program. According to data from the European Commission to sfârșitula of 2013 more than 60% of the contracted projects 105 550 000 000 euro respectively, they were paid to beneficiaries. In Table. 3 presents data on the state of implementation of EU funds in 2007-2013.

Table 3. Status of implementation of EU funds in 2007-2013 in Central and Eastern Europe states.

	Bulgaria	Republica Cehă	Estonia	Ungaria	Letonia	Lituania	Polonia	România	Slovacia	Slovenia
Bugetul disponibil (mld euro)	6,7	26,3	3,4	24,9	4,5	6,8	67,2	19,2	11,7	4,1
Bugetul disponibil/loc (euro)	917,0	2.501,7	2.595,4	2.515,3	2.242,7	2.278,8	1.743,6	956,0	2.151,4	1.991,5
Proiecte contractate 2007-2013 (mld. euro)	7,5	24,2	3,3	26,5	4,4	6,7	63,8	18,0	11,4	3,8
Rata de contractare (%)	112	92	96	106	96	99	95	94	98	93
Contracte finanțate 2007-2013 (mld. euro)	3,6	16,8	2,6	15,6	3,2	5,0	42,9	7,0	6,1	2,6
Rata plăților (%)	54	64	77	62	70	74	64	37	53	62

Source: own calculations based on data from the European Commission Inforegio website

After 7 years of implementation, the 10 countries of Central and Eastern Europe have managed to contract approximately 98% of the budget for the period 2007-2013. At the end of 2013, Hungary and Bulgaria recorded the highest rate of contraction of between 112% and 106%, Hungary is the country with the greatest progress considering the budget and the value of contracted projects that were funded. In contrast, Slovenia and Romania are, and on payment rates, Romania is registering the lowest rate posted only 37%, followed by Slovakia with 53% and Bulgaria with 54%.

Another indicator taken into account in analyzing the level of effectiveness and efficiency in managing European funds it is the difference between the contracted projects and payments made. In this respect, Bulgaria (58%) and Romania (57%) are leaders among Member States, as shown in the following table.

Table 4. The difference between the rate of contracting and payment rates in Central and Eastern Europe states

	Bulgaria	Republica Cehă	Estonia	Ungaria	Letonia	Lituania	Polonia	România	Slovacia	Slovenia	MEDIA ECE
Rata de contractare (%)	112	92	96	106	96	99	95	94	98	93	98
Rata plăților (%)	54	64	77	62	70	74	64	37	53	62	62
Diferența între rata de contractare și rata plăților (%)	58	28	19	44	26	25	31	57	45	31	40

Source: own calculations based on data from the European Commission Inforegio website

Table 5. Distribution by countries of structural and cohesion funds (- mld euro)

	Bulgaria	Republica Cehă	Estonia	Ungaria	Letonia	Lituania	Polonia	România	Slovacia	Slovenia	ECE
Fondul European de Dezvoltare Regională (FEDR)	3,21	13,71	1,86	12,65	2,41	3,44	34,79	8,97	6,19	1,93	89,16
Fondul de Coeziune (FC)	2,28	8,82	1,15	8,64	1,54	2,31	22,39	6,52	3,90	1,41	58,96
Fondul Social European (FSE)	1,19	3,77	0,39	3,63	0,58	1,03	10,01	3,68	1,56	0,76	26,60
Total	6,7	26,3	3,4	24,9	4,5	6,8	67,2	19,2	11,7	4,1	174,72

Source: own calculations based on data from the European Commission Inforegio website

With a budget of 67.2 billion euros and a population of 38.53 million inhabitants, Poland is ranked first in terms of funds allocated under the 2007-2013 multiannual financial program.

After 7 years of implementation of the 2007-2013 financial program, around 50% of approved contracts were funded by the European Regional Development Fund (ERDF), 33% of the Cohesion Fund (CF) and 14% by the European Social Fund (ESF).

The contracting rate of European funds among the states analyzed is shown in the following table.

Table 6. The contracting rate of structural and cohesion funds

	Bulgaria	Republica Cehă	Estonia	Ungaria	Letonia	Lituania	Polonia	România	Slovacia	Slovenia	ECE
Fondul European de Dezvoltare Regională (FEDR)	103%	96%	95%	104%	99%	99%	94%	94%	103%	95%	98%
Fondul de Coeziune (FC)	132%	83%	98%	115%	88%	99%	96%	99%	85%	87%	98%
Fondul Social European (FSE)	97%	96%	96%	94%	109%	99%	95%	84%	111%	96%	98%

Source: own calculations based on data from the European Commission Inforegio website

From Table. 6 we can see that our country failed to employ only 84% of the initial budget 2007-2013 European Social Fund, with the lowest rate of contraction in the region.

Regarding our country, according to information of the Ministry of European Funds on the implementation of operational programs financed from structural funds and cohesion on August 22, 2014 statement of submission and approval of projects, signing of financing agreements, make payments to beneficiaries and repayments by the European Commission, based on the EU allocation for 2007-2013 (ie euro 19.21 billion) is as follows:

✓ projects submitted - 43 869 projects (totaling about 75.2 billion euros, of which the EU contribution is about 49.4 billion euro);

✓ approved projects - 17 149 projects (totaling approximately 36.4 billion euros, of which the EU contribution is 22.1 billion the EU's contribution, or 115% higher than the amount allocated);

✓ contracts / financing decisions concluded with the beneficiaries - 14 153 contracts with a value of about 25.2 billion euros eligible from EU funds is 19.8 billion euro (103% in relation to the allocation);

✓ payments to beneficiaries (pre-financing and reimbursements, excluding reimbursement of VAT) - about 9.49 billion euros, of which the EU contribution is 8.48 billion (44.07% of the allocation 2007-2013);

✓ absorption rate is 47.42% of the EU allocation (they actually received from the European Commission 9.11 billion euro) while interim payments reimbursed represents 36.45% of the 2007-2013 allocation (ie about 7 billion).

The value of the cost statements submitted to the European Commission is euro 7.034 billion, which means a 36.61% Current consumption of the EU allocation.

3. Conclusion

The absorption capacity of EU funds reflects the extent to which a Member State may spend the financial resources allocated from structural and cohesion funds in an efficient and effective manner, and can be characterized in terms of both demand and supply of financial resources. The demand, absorption capacity means the ability to create real beneficiaries eligible projects, and under supply side absorption capacity can be determined by three main factors: macro-economic absorption capacity defined and measured in relation to GDP; The financial absorption capacity, defined in terms of capacity financing of programs and projects and the administrative capacity, defined as the capacity of central and local authorities to prepare programs and appropriate projects and opportunities and to fund and monitor the implementation of programs and projects .

Regarding the low absorption capacity of Structural and Cohesion funds, consider the following goals have immense influence on this problem:

- compatibility of national legislation with Community raises issues that occur at the beginning of the programming period. These occur due to difficulties encountered by Member States to complete the harmonization of the laws and conformity assessment procedures on the management and control under Community law;

- diminishing financial resources available. The impact of the financial crisis has created financial difficulties in many Member States on accessing European funds. The issues of reducing financial resources raised issues regarding achieving the expected results, changes in expected funding requests, and more restrictions on national or local public financing;

- grant financial aid regulation. Lack of regulation entirely to European funds can lead to problems related to legislative and technical incompatibility in some cases the requirements of the European Commission is not compatible with existing national regulations, the latter must be revised. Also, another aspect of the legal norms relate to delays in the definition and introduction of EU and national rules and arrangements exist incomplete or showing inaccuracies;

- organizational requirements, prints its influence through the difficulties of Member States to establish new institutions, insufficient differentiation between the authorities, hierarchy problems between the institutions and difficulties in allocation of tasks and responsibilities;

- human resources, the limited number of human resources and their insufficient qualifications at national and regional level is a factor that influences the management of European funds.

In order to increase the absorption capacity, I think it would be useful following:

- simplify and standardize the management of the funds by the administration
- developing clearer and simpler strategies for programming and thematic concentration of funds;
- common set of rules and procedures for all programs and eliminate excessive bureaucracy;
- uniform implementation tools;
- increasing real impact - compulsory competition for allocation of funds and the choice of projects with the highest expected impact;
- redefining the pre-financing system and reimbursement (possibility of multi-fund projects) and accountability from the government contract;
- development and improvement of existing banking products, specializing in assistance to beneficiaries of structural and cohesion funds;
- involvement in the phase of programming of all relevant actors at national, regional and local level, so the proposals in future framework documents and operational programs to best respond to their needs, thus allowing contributed more and more focused on achievement European objectives;
- designing reforms to increase the absorption capacity in some Member States and therefore the need for them to be negotiated by the Commission and the Member States concerned when defining partnership contract on development and investment, so as to become a condition for states ;
- better management of human resources to attract and retain qualified staff to manage EU funds, training of high quality staff and avoiding any replacement of staff unless absolutely necessary;
- increased technical assistance to Member States whose absorption rates, is below the European average, indicates a lack of absorption capacity;
- cooperation between countries and regions with a high absorption rate with a low absorption rate in order to allow the dissemination of best practices;
- promotion of public-private partnership projects in order to achieve the target on time.

All procedures for the management and implementation of structural funds are often long, difficult and demanding, but harnessing successful cohesion policy of the European Union, and hence the national development policies depends on the implementation performance of projects or the capacity to absorb funds Europe.

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