

THE ABSORPTION CAPACITY OF EUROPEAN FUNDS – CONCEPTS

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Rezumat

After the burst of the economic and financial crisis, a growing number of member countries of The European Union, mainly the new member countries, have been concentrating on the absorption of the community funds, with the purpose of reestablishing the economic growth. An overview of the academic literature in terms of absorption of European Union structural and cohesion funds points out a lack of an appropriate and conceptual framework, while the subject related to the selection of viable options to manage these funds is even less approached.

Cuvinte cheie: cohesion policy, absorption rate, absorption capacity, macroeconomic analysis, the administrative capacity, the macroeconomic absorption capacity.

Clasificare JEL : M40, M41

The academic literature in the European funds field includes in particular the presentation of the structural funds and key elements which define them (types of funds, objectives, intervention areas). These aspects are quite important because they define the period of the project planning and of the elaboration funding application itself, whereas the final selection of the eligible projects is made by following the compliance, on the one hand, with the legislative normatives specific to each structural fund (the same for all member countries), but, on the other hand, with also the priority objectives and measures specific to the sectorial operational programs (specific to each country). The basic regulations concerning the structural funds are being found in The European Union Council Regulation number 1260 since June 21, 1999, regarding the general provisions of the structural and cohesion funds.

The explanation for the lack of information in this field does not have to be related to the lack of interest in the study of such aspects which have a special impact on the socio-economic development of a country, the reasons, being, in my view, related essentially to the relative novelty of these funds, of the difficulties of assessing the impact of structural and cohesion funds, concerning the long-term European Union convergence, the construction of adequate indicators for the analysis of the European funds impact, including those for the absorption capacity measurement.

The research topics related to the absorption capacity of the European funds are being studied in the specialty literature of the last years, in their various aspects. The writings published by Reilly.A (2004), Elgar(2005), and more recently by Steunenbergh and Dimitrova(2007), but also The European Commission's documents and studies illustrate and describe the various aspects of the European integration and of its components. Likewise, the focus is on the European structural funding programs' role as essential pillars for achieving the socio-economic cohesion and the competitiveness growth of the European Union member countries.

With regard to the insurance strategy of an ideal absorption capacity of the European funds and of its growth, the study made by Bourguignon and Sundberg, presents the absorption capacity as being "the capacity of countries, which have a low level of income, to productively absorb a large amount of international and financial aid, the burden of this writing being to set on first rank the consumption of the granted community financial aid. Relevant in the field of structural and cohesion funds absorption are the studies made by The European Institute of Romania by Drăgan(2003), Băleanu (2007, Bal), Luțaș, Jora, Topan(2007), Dziembala(2007) or the study made by Lianu C. (2004). This last author customizes the policies and the funding strategy of the European funds with certain detailed analyses at the level of implementing these programs in Romania.

As to the absorption capacity notion, Boot et al.(2001) makes a first analysis in which the absorption capacity notion is presented systematically. In these authors' view, the absorption capacity can be defined as being "the extent to which a member state is capable of effectively and efficiently consuming the financial resources allocated through the structural funds. On the basis of this definition Wostner(2008) identified three specific factors which can influence the absorption capacity: the macroeconomic absorption capacity, the administrative absorption capacity and the financial absorption capacity. Within this study, I have analyzed, under a theoretical aspect, the absorption capacity notion under its three facets, respectively the macroeconomic absorption capacity, the financial absorption capacity and the administrative absorption capacity.

2. Coordinates of the European funds absorption capacity

By the late 1990s, the structural and cohesion funds absorption has been recognized as being a primary concern in the implementation of The European Union cohesion policies. Many member states stood up to difficulties with regard to the structural and cohesion funds absorption of the union budget, especially at the beginning of the after-adherence period.

The specialty literature which studies the absorption capacity can be classified on two levels: -the macroeconomic analysis of the structural and cohesion funds absorption, such as that by Herve/Holzmann(1997) - different studies of absorption evaluation and the reports prepared and published by the European Commission or by consultants who work in the European funds implementation field. One of the first studies of the European Union, which focused on the theoretical and empirical investigation of defining and measuring the absorption problems, was made in 1997 by Herve and Holzmann ,who ,demonstrated, on the basis of the review and specialty literature and empiric proves evaluation, that there is a significant problem concerning the capacity of less economically developed regions and countries to productively absorb large financial transfers. This study, therefore, analyzes, in general, the economic aspects of the European funds absorption problems, but ,also, it is trying to find empiric evidence in the structural policies undertaken at community level.

In regard to the analyses made at European Commission level, they are materializing into a series of evaluations and reports concerning the consequences of the European Union structural policies in the member states and outwards the community boundaries.

To my mind, these evaluations and reports should emphasize if the main objective of structural policies, represented by the economic and social cohesion and by the real convergence between the member states and their regions, takes place as a result of the policy implementation of a financial and irredeemable support. Nevertheless, none of these reports which concentrate on the analysis of the improvements registered by the funding policy implementation through the structural and cohesion funds, does not examine the problems related to the absorption capacity in the member states or in the candidate countries, excepting the third cohesion report where some studies have been prepared, studies in which the problems related to the European funds absorption capacity at the member and candidate states level have been approached, among others.

A series of studies made as a result of the European Commission request, was elaborated in 2002 (NEI,2002a,2002b,2002c). On the basis of country studies(Ireland, Spain, Portugal, East Germany lands) and of sectorial studies (management, programming, implementation, monitoring and implementation ,financial management and control), a series of key indicators, reference criteria and basic indicators for the candidate states to efficiently manage the structural and cohesion funds, have been defined. In early 2013, The European Commission published these studies, in which the described key indicators had been tested in ten countries of Central and Eastern Europe. Eight of the ten studied countries were expected to become European Union members since 2004 and the two remained countries(Bulgaria and Romania) after 2006 (Papadopoulos,2003,2003a). The results of the study show a surprisingly low level of the European funds administrative absorption capacity in eight member states.

According to these studies, the accession in the field of structural funds is not realized too soon only for the candidate states which were excluded from the adherence in 2004, but also for the ECE countries that became EU member states in May 2004(In this report of research I will analyze some of these results concerning the structural and cohesion funds absorption capacity in Hungary, Czech, Slovakia, Estonia and Slovenia).

The most valuable document which was used in order to achieve this project is ”The questionnaire on negotiation, Chapter 21 – The regional and structural policies”(to be seen the European Commission,2003c,2003c and the annex) in which the Commission prepared a series of questions about the necessary institutional arrangements so as to manage the structural and cohesion funds and it distributed them to candidate countries.

In my opinion, the absorption capacity reflects the extent to which a member state can use the financial and non-refundable resources, allocated efficiently, effectively and economic from the structural and cohesion funds. Also, I consider that the absorption capacity of the financially non-refundable resources represents a variable with a direct and very strong link in providing the economic in providing the economic and social cohesion with the available resources of the European funds.

The relation between the structural and cohesion funds absorption capacity and the regional economic situation is a paradoxical one, the practice proving that most states and disadvantaged regions are facing the greatest difficulties in the absorption of these funds.

The paradox consists theoretically and practically in the necessity of the largest financial support for their economy reorganization, as the most disadvantaged regions and microregions do not dispose of the financial and human resources and neither of the necessary administrative support in order to appropriately use the European funds to which they have access.

The main explanation for this paradox refers, on the one hand, to the regional authorities difficulties to absorb European funds because of the impossibility of co-funding support ,lack of experience and qualification in the field of attracting European funds, plus the bureaucratic procedures. On the other hand, the capacity to harmonize the co-financing depends on the desire of the different partners to offer funds and also on the technical an institutional abilities

to collect the contributions(for example ,the local authorities are often reluctant to the horizontal collection because of the extreme interferences and the involved potential control).

There is a general consensus about the fact that the absorption problems depend mostly on the institutional factors, specific to both EU structures and those national.

At the EU level, the institutional factors are firstly related to the European Commission: the transparence of the allocation process of non-refundable funds, their consistency, the bureaucratic administration whose organization capacity can be affected by the lack of communication on the vertical and by the coordination on the horizontal. At national level, the institutional factors are related to the economy real structure, administrative capacity, the states organizational structure(federal versus unitary) and to the promoted economic policies. Consequently, even in the conditions of similar funds transfers(both absolute measure and relative size) it is expected that absorption issues should differ from one country to another.

Other important determinants of the absorption capacity refer to the programming, construction and development of the administrative capacity in the pre-accession period.” In accordance with the European Commission recommendations and the guide of the best practices of the European Union countries, a golden rule has become obvious, namely that a small number of institutions involved at different levels of management and programs(sectorial and regional) in the new member states offer a bigger possibility of achieving high absorption rates of the structural funds.”

Some quite interesting and various observations were found in articles by Katsaitis and Doulos(2009), Šumpikova et al.(2007), Martin(2010) and Georgescu(2008). Katsaitis and Doulos(2009) mention that, even if it is expected that the structural and cohesion funds have the favorable effect of stimulating the economic growth and investments, these funds can be invested in projects that do not generate economic growth. Šumpikova and colab.(2007) point out that the countries have a limited capacity to effectively and efficiently absorb support for foreign investments. Martin (2010) defines the absorption capacity and the extent to which a state is capable to effectively and efficiently use the financial resources allocated by the structural and cohesion funds.

According to Šumpikova and colab.(2007), this absorption capacity is needed in order to bring a maximum contribution to the realization of the economic and social cohesion. „If we take into consideration the fact that in order to achieve a maximum absorption level of the European funds, is needed, on the one hand, an absorption capacity from the institutional system created by a state to manage the respective funds and, on the other hand, an absorption capacity from the beneficiaries to who these funds are addressed, we could consider that there are two different characteristics, respectively the absorption capacity of the offer and and the absorption capacity of the demand.”

„On the demand side, the absorption capacity effectively means the real capacity of the projects applicants (eligible for funding)” .

The demand side of the absorption capacity can be determined with the help of three main factors: the macroeconomic absorption capacity(defined and measured in the GDP, and the European funds transfer is limited to a 4% maximum of the respective country GDP), the financial absorption capacity(the capacity to co-fund approved projects an to support programs and projects, to plan and guarantee the national contributions in the multi-annual budgets and to collect these contributions from the partners involved in different programs and projects), the administrative absorption capacity(the capacity and competence of central, regional and local authorities to prepare in time projects and programs, to take requisite decisions in order to: ensure a coordination between partners, face the administrative and reporting requirements, fund and properly supervise the implementation of the community and national legislation, avoiding the irregularities which may appear).

According to Georgescu(2008), the most disadvantaged regions are, likewise, those which are confronting with great difficulties in the funds absorption; yet, theoretically and practically, these are the regions that most need financial support to order to ensure the economic reorganization.

In my opinion, the absorption issues about the European Union structural and cohesion funds are very important, the macroeconomic effects of the structural funds being extremely beneficial.

The conclusion is simply that, without absorption problems, the policies of financing through the European Union structural and cohesion funds would be very beneficial for the economic and social cohesion in the community space.

The running and the performance of the European funds use and the extent to which the European funds are efficiently and effectively managed can be regarded as a transfer variable depending on the absorption capacity ,on both offer side and demand side.

The absorption capacity leads to an important performance of the European funds use, if the economy, efficiency and effectiveness are full taken into account[Wright and Nemeč 2003].The above observations can be summarized in the next figure:

Fig.no.1 The link between the absorption capacity, the 3 E and the european funds performance

The absorption capacity

- The funding offer - concentrates on the national macroeconomic conditions, national co-funding capacity and administrative capacity
- The funding demand - the capacity to develop projects by the applicants, the applicants co-funding capacity

3 E

- The efficiency - reflects the relation between the obtained effects and the adequate financial efforts;
- The effectiveness - reflects the relation between the obtained effects and those that were foreseen;
- The economicity - reflects the relation between the effectiveness and achievement degree of the foreseen

The structural funds performance

- The running and the performance of structural and cohesion funds, in accordance with the induced requirements of the community regulations specific to the non-refundable funding policies.

The macroeconomic absorption capacity can be defined and measured in conjunction with the GDP (Gross Domestic Product). Thus, The European Council Regulation no.1260/1999 anticipates that the annual amount of the structural funds from which a member state can benefit along with the assistance received from The Cohesion Fund should not exceed 4% of the GDP.

Other dimensions of the macroeconomic absorption capacity refer to:

-the necessity of increase of the budget spending. The states that benefit from European funds have to provide higher budget expenditure in order to ensure the assumed co-funding;

- the capacity to absorb the macroeconomic effects generated by the additional costs which will appear. These expenses will determine an increase of the aggregated offer, especially of its component regarding the labor market. From a macroeconomic perspective, the European financial aid has an essential impact on the balance of payments, the exchange rates and generally on the macroeconomic evolutions, these having a significant effect on the economic growth in the beneficiary country. The macroeconomic absorption capacity is influenced by the following factors:

- the long-term debt sustainability
- the prudent level of dependence of external assistance
- the price stability
- the interest rate and the exchange rate

The financial absorption rate refers to the ability of central and local public authorities to offer co-funding for the programs and projects held by The European Union, to plan and guarantee these internal contributions in multi-annual budgets and to collect them from the different partners involved in projects and programs. To my mind, the major factors that influence the financial absorption capacity are: the co-funding capacity of beneficiaries, the central and local authorities capacity to provide the co-funding, the financial capacity to repay funds, the funding capacity of the private sector which can be trained in public-private partnerships.

The co-funding capacity must be separately analyzed for the central and local authorities, the essential criterion of this division being the fiscal and budgetary policy, which determines the distribution criteria of the public income at central and local level. Taking into account the fact that a small number of projects are financially fully supported through European financial non-refundable grant and that, in most cases, there is the co-funding condition, namely the current revenues of the authority which accesses the funds and projects generated by the project. Thus, the increase of the knowledge level and that of the administrative capacity of central and local public authorities is needed so as to identify implementation opportunities that can generate income, perform financial analyses and elaborate the forecasts in order to ensure the availability of the income.

The determination of the co-funding effort can be related both at project and operational level. The co-funding capacity at project level is useful for each beneficiary, but I believe that the co-funding analysis at operational program level is much more important, starting from:

- the analysis of the predominant beneficiaries within the respective operational program;
- the allocation method of the community funds for each operational program ;

- the appraisal of the national public expenses and the co-funding rates specific to each operational program.

The administrative absorption capacity reflects the central and local authorities capacity to prepare plans, projects and programs in time, to select the best of them in good time and to organize an effective framework for partnerships so as to comply with the administrative and reporting obligations. In accordance with the absorption capacity dimensions outlined above, Wostner (2008) developed the concept of administrative capacity, referring to the necessary conditions to ensure the repayment of European funds for beneficiaries (regions/member states). In this respect, the author developed a holistic approach as it is shown in the figure below:

Fig.no.2. Holistic approach of the absorption capacity

The real absorption capacity

- The real necessities according to a series of objectives and international arrangements
- The availability of output factors to identify, organize and implement projects and programs

The financial absorption capacity

- The capacity of co-funding by the funds beneficiaries
- The capacity of co-funding by the member state

The absorption capacity per program/project

- The preparation of the project documentation
- The relevance of the strategy and program according to the real needs
- The adaptation of the real instruments of the projects/programs implementation

The administrative absorption capacity

- The preparation and implementation capacity of the administrative capacity by/for applicants
- The administrative capacity of the public administration

Source: Wostner, P., 2008, The Microefficiency of EU Cohesion Policy, European Policies Research Centre, Glasgow, pag. 28

In one of the most extensive studies performed by the European Commission in 2003, were highlighted sets of indicators which largely determine the absorption capacity increase of the European funds, namely:

1. Actors – at European Union level – The European Commission again at national and regional level – governmental and administrative structures involved in the implementation and management of funds, for example The Authority of Management, The Authority of Payments

2. Context and rules – the European model of implementation is interpreted in terms of the specificity of the national/regional/local context, which implies a diversity of adaptations

3. Procedures and systems – the instruments of implementation are interpreted and used in a different way within each context. The particular and specific factors and mechanisms of implementation have been identified in the same study and they are stressed in the table below, their impact being evaluated in order to identify the impact direction on the structural funds (positive/negative) and the intensity of the impact (high/low).

The following table thoroughly presents the indicators described above.

Table no.1. The factors and mechanisms that influence the absorption capacity of European funds

<i>Actors</i>	<i>Context</i>	<i>Rules ,procedures and technical support</i>
<ul style="list-style-type: none"> • <i>The European Commission – policies, priorities and organization</i> • <i>National Government - policies, priorities and organization</i> • <i>Authorities of Management - Organization</i> • <i>Authorities of payment - Organization</i> • <i>Implementation structures - Organization</i> • <i>Beneficiaries - Organization</i> • <i>Social partners - priorities, organization</i> • <i>Foreign experts – Report</i> 	<ul style="list-style-type: none"> • <i>Political context</i> • <i>Socio-economic context</i> • <i>Institutional and administrative structures</i> • <i>The intervention form</i> • <i>The future of the EU - extension</i> 	<ul style="list-style-type: none"> • <i>The measures of implementation of the European Union dispositions and procedures</i> • <i>Programming</i> • <i>Procedures of management</i> • <i>Systems and procedures of control</i> • <i>The development and use of the monitoring system</i> • <i>Evaluation and selection of the projects</i> • <i>Financial procedures</i> • <i>Partnership</i>

		<ul style="list-style-type: none"> • <i>Coordination</i> • <i>Measures to ensure the informing and publicity</i> • <i>Technical assistance</i> • <i>Other implementation activities of the monitoring program</i>
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Sursa: ÖIR, 2003, A Study on the Efficiency of the Implementation Methods for Structural Funds, Final Report, ÖIR in association with LRDP and IDOM, commissioned by the European Union DG Regional Policy, December 2003, Vienna, pag. 30

The absorption capacity is practically translated as the absorption rate. As regards to the absorption rate, it can be calculated using two indicators, namely:

- depending on the payments to beneficiaries in the European Union account of contribution in relation to the planned allocation for the financial 2007-2013 framework, and
- depending on the reimbursed sums from the European Commission in relation to the planned allocation for the financial 2007-2013 framework.

The Minister of European Funds published a series of specifications about the calculation method of the absorption rate of the structural and cohesion funds, this being able to be quantified both in terms of the amount of internal payments made by the managing authorities to beneficiaries and in terms of funds received from the European Commission („the external absorption” or „the effective absorption”). They emphasize the rhythm of operational programs implementation, the difference between the two types of absorption rate, reflecting, in fact, one of the major problems of the operational programs implementation related to the sluggish rhythm in which the beneficiaries of the funding contracts begin, accomplish the subsequent contracts and request the reimbursement of the incurred expenses.

3. Conclusions

In my opinion, the determinant factors of the absorption capacity are:

- the institutional factors, both at European Union level(for example, the coherence of the coordination in the process of funds allocation) and at national level. The absorption capacity is usually positively correlated with the capacity of regional and central authorities to prepare coherent multi-annual plans, stand up to a substantial amount of work and, ultimately, finance and supervise the implementation of projects and programs, avoiding fraud, clientelism and corruption;
- the political stability is also relevant in determining the positive performances of absorption of the European funds. The lack of a such stability could undermine the continuity, consistency and coherence necessary to successfully implement long-term programs;
- the legislative stability – the frequent changes of community and national legislation affects negatively the preparation of major infrastructure projects and the attainment of approvals necessary for the projects implementation;
- the co-funding capacity of states, regions and beneficiaries.

A priority for the states governments which benefit from structural and cohesion funds is to improve the system of access to them and accelerate the absorption of European funds, in order to provide a rapid infusion of capital in the economy, with the purpose of reducing the effects of the economic crisis, in order to essentially facilitate the investments at national, regional and local level and avoid the potential corrections regarding the amount of the community financial aid as a result of the failure of the assumed targets.

The possibilities to improve the efficiency and the structural and cohesion funds absorption could be :

- the creation of contacts between the implementation structures of the member states
- incentives to attract and retain staff in the member states;
- the analysis of the possibility to introduce informational and harmonized communication systems, taking into account the differences between the management and control systems in the member states;
- the resolution of stricter requirements in terms of control through the support to beneficiaries;
- the cohesion policy should be decentralized through development approaches at local level;
- greater involvement of the regions throughout the different stages of the whole process;
- the establishment of an international cooperation program „INTERREG EXTENSION” so as to improve the cooperation between the regions with high absorption and the regions with low absorption;
- the enhancement of public-private partnerships projects;
- constant application of penalties for negligence in the management of resources

Taking into account what has been mentioned above, I believe that it is necessary that the public authorities should create a transparent environment concerning the structural and cohesion funds access and enforce the capacity of state institutions involved in the management of European funds, the existence of some important institutions with

skilled and motivated staff being a defining variable in the increase of the absorption capacity of structural and cohesion funds.

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