

ABSORPTION RATE OF EUROPEAN FUNDS – ECONOMIC GROWTH FACTOR

CERCEL (ZAMFIRACHE) CAMELIA

DOCTORAL STUDENT, UNIVERSITY OF CRAIOVA, FACULTY OF ECONOMICS AND
BUSINESS ADMINISTRATION, DOCTORAL SCHOOL OF ECONOMICS

e-mail: camelia.zamfirache@gmail.com

Abstract

Finance plays a major role in all economies by providing the necessary funds for economic activities and implicitly for all sustainable investments. Financing for sustainable development foregrounds directions for major investments in longer-term activities.

In my opinion, one of the major problems of the sustainable development of the Romanian economy is closely related to the tendency and capacity to absorb European funds with a dominant investment and multiplier impact. The absorption rate of European funds can be an important factor in terms of economic growth. Effective use of these funds can stimulate investment, innovation and infrastructure development, which in turn can contribute to economic growth. These funds can also help create jobs and increase the economic competitiveness of a country or region.

The study is based on the comparative analysis of Romania, as an emerging country of Central and Eastern Europe, with the other countries of the European Union in order to know the stage of sustainable development of our country and to emphasize the major role of European funds in this regard, in the countries of the Union European and we also used the theoretical research method and the method of reading the specialized bibliography, to outline the conceptual aspects addressed in the paper. This study emphasizes the fact that it is very important that the absorption of European funds is as high as possible to be a factor of economic growth and implicitly to support sustainable economic development.

Keywords: *European funds, absorption rate, economic growth, sustainable development*

Classification JEL: *E22 ,F43, Q01*

1. Introduction

European funds represent a major source for the short, medium, and long-term development of the economy of our country and the other member countries of the European Union. The high absorption rate of European funds is the main element of fiscal sustainability in terms of the investment strategy and the reduction of the budget deficit, by financing sectors of major importance.

The rate of absorption of European funds and investments are closely related, because the level of absorption reflects the ability of a member state to effectively use and implement the funds received from the European Union in concrete projects. A high absorption rate indicates that the country is effectively using the resources made available through European funds, which can contribute to economic growth.

2. Absorption rate of european funds – economic growth factor

Funding can be said to be absorbed when EU funds are transferred by the Commission to an operational program of a member state and represents co-financing for eligible projects. Absorbed financing includes advance payments, interim payments and final payments. By absorption rate we mean the percentage that has been paid out of the total amount committed for a specific operational program.

The absorption of a volume of EU funds, as close as possible to the maximum rate in relation to the funds distributed within the community framework, according to programs and at the level of (co)financed or fully financed projects is an important objective of economic policies and at the same time a growth factor economic.

It is necessary to analyze and interpret the descriptive data of the economic phenomenon of the absorption of EU funds. The implementation of a greater absorption of European funds by Romania is done only in the specific framework of financing fund - financing program - financed project. If any financing fund in the European Union space translates into concrete a structural community policy, dedicated to the convergence of the EU member economies or intended to continuously materialize a social cohesion and ensure a regional development, in detail also a rural development and for fishing and maritime affairs, then this financial instrument through its priorities focuses mainly on sets of policies, detailed in the multitude of objectives of these European Community policies.

All European funds respect the principles of the general EU project, but at the same time there is no European funding fund that violates the principles related to ensuring the eligibility of projects (transferred and programs themselves defined as the absolutely necessary interface between the project and the funding fund and delimiting the activities with the aim of achieving some priority objectives) with reference to the essential principles of compliance, complementarity, coherence and coordination, to which are also added partnership, proportionality, concurrent or concordant management, additionality and, last but not least, equality between men and women. All types of structural funds (funds specific to European investments or ESI funds) comply with the stated principles and are included in our country's partnership agreement with the EU since its accession on January 1, 2007, respectively from the first budget year (2007-2013), being also valid in the second (2014-2020) whether it refers to the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) or to the European Fisheries and Maritime Fund (EMFF).

In all programs, the European Commission emphasized the problem of low absorption, and the Court of Auditors constantly examined this topic. It was found that implementation had gotten off to a rather poor start in the 2007-2013 programming period. The reasons for this slow start are probably the rather late adoption of the legislative framework, but also the overlapping programming periods.

In order to improve the absorptive capacity of the member states, the Commission established an operative group, aimed at providing assistance in this regard to the member countries.

Table no 1 Total EU payments for all ESI funds – cumulative time series up to the end of each year for Central and Eastern European EU Member States in the period 2014-2020

Year	BG	CZ	HR	EE	LV	LT	PL	RO	SK	SI	HU	EU average
2015	2%	3%	3%	3%	3%	2%	2%	3%	2%	3%	2%	3%
2016	8%	7%	6%	12%	10%	11%	9%	7%	8%	8%	8%	9%
2017	16%	15%	11%	22%	17%	20%	15%	16%	14%	14%	17%	16%
2018	25%	25%	16%	35%	27%	32%	28%	26%	24%	24%	31%	27%
2019	36%	40%	30%	49%	44%	41%	42%	36%	33%	40%	42%	40%
2020	49%	58%	45%	65%	60%	62%	59%	50%	46%	57%	61%	55%
2021	57%	70%	51%	73%	66%	71%	72%	57%	55%	66%	71%	63%
2022	69%	84%	64%	87%	77%	84%	86%	74%	70%	81%	85%	75%
2023	73%	91%	69%	91%	81%	91%	91%	81%	75%	87%	88%	81%

Source: data taken by the author from <https://cohesiondata.ec.europa.eu/countries/14-20>

Table no 2 Total EU payments for all ESI Funds – cumulative time series up to the end of each year for the rest of the EU Member States in the period 2014-2020

year	AT	BE	CY	DK	FI	FR	DE	EL	IE	IT	LU	MT	NL	PT	ES	SE
2015	10%	5%	3%	2%	12%	4%	3%	6%	13%	2%	11%	2%	4%	5%	5%	6%
2016	19%	9%	8%	9%	25%	8%	8%	16%	21%	6%	18%	6%	7%	13%	8%	15%
2017	30%	15%	19%	19%	38%	19%	17%	25%	30%	10%	27%	11%	16%	22%	11%	22%
2018	42%	26%	35%	28%	52%	31%	28%	33%	45%	20%	44%	20%	27%	34%	22%	35%
2019	56%	39%	48%	40%	66%	45%	41%	43%	61%	31%	57%	34%	38%	47%	32%	47%
2020	70%	50%	57%	52%	79%	61%	55%	64%	77%	44%	71%	46%	53%	62%	45%	62%
2021	64%	56%	69%	54%	75%	60%	58%	71%	77%	52%	64%	54%	52%	73%	51%	62%
2022	79%	69%	84%	60%	87%	70%	71%	84%	85%	63%	83%	67%	61%	87%	63%	73%
2023	85%	75%	86%	64%	93%	77%	77%	87%	91%	67%	86%	76%	69%	91%	66%	85%

Source: data taken by the author from <https://cohesiondata.ec.europa.eu/countries/14-20>

Table 3 EU member countries coding

Short name (English)	The code country
Belgium	BE
Bulgaria	BG
Czech Republic	CZ
Denmark	DK
Germany	DE
Estonia	EE
Ireland	IE
Greece	EL
Spain	ES
France	FR
Croatia	HR
Italy	IT
Cyprus	CY
Latvia	LV
Lithuania	LT
Luxembourg	LU
Hungary	HU
Malta	MT
Netherlands	NL
Austria	AT
Poland	PL
Portugal	PT
Romania	RO
Slovenia	SI
Slovakia	SK
Finland	FI
Sweden	SE

Source: <https://publications.europa.eu/code/ro/ro-370100.htm>

As can be seen in Table no 1 and Table no 2, the absorption rate of the EU member countries for the ESI funds within the cohesion policy during the years 2015-2023 is continuously increasing. The highest percentage is that of Finland, in 2023 percentage of 93%, above the EU average, which is in 2023 of 81%.

From the emerging EU countries in Central and Eastern Europe, Estonia, Poland, Lithuania and Hungary are the ones that have a percentage of payments related to ESI funds above the EU average, in the analyzed period. Romania records an absorption rate close to the EU average. From the analysis of the data related to the payments for all ESI funds, the involvement of all EU member countries in the absorption process of European funds can be observed, which is ideal, taking into account the benefits brought to the member states through the successful implementation of the projects.

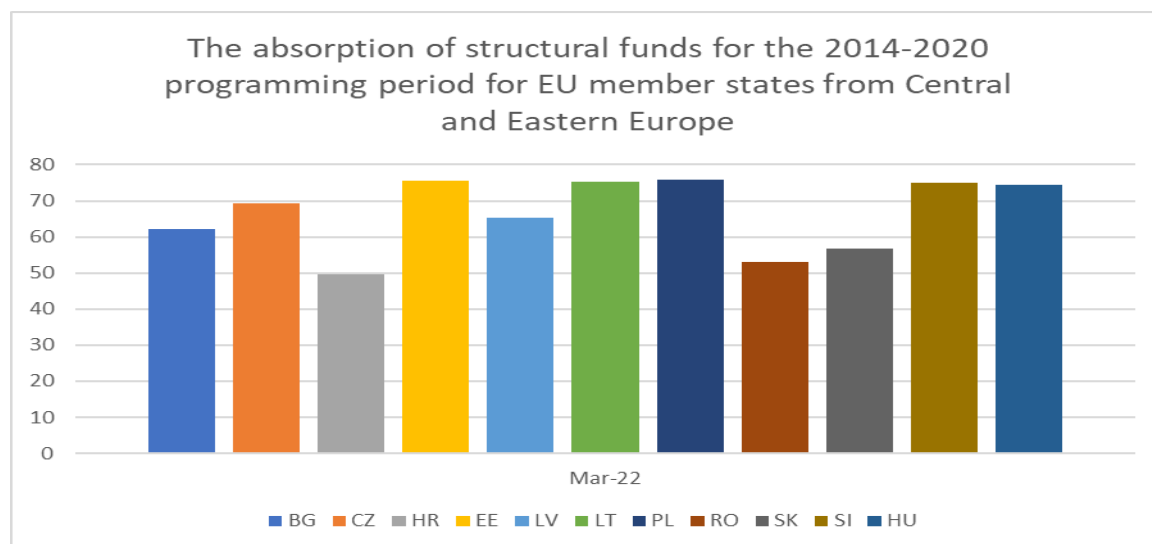


Chart no 1 Absorption of structural funds for the period 2014-2020 EU countries in Central and Eastern Europe

Source: author processing based on the retrieved data <http://www.consiliulfiscal.ro/RA%20CF%202021.pdf>

Chart no. 1 presents an analysis of Romania's absorption rates of structural and cohesion funds compared to the other EU member states in Central and Eastern Europe in March 2022. It can be seen that Romania occupies the penultimate place in the ranking, with an absorption rate of 53%, slightly ahead of Croatia which has an absorption rate of 49.5%. In this sense, it should be noted that the average absorption rate of the analyzed countries is 66.54%, Romania and Croatia having a much lower value than the average value.

Sustainable economic growth is dynamically efficient and does not decrease over time, and GDP is and will be the most used indicator for monitoring sustainable economic growth (Stavins et al., 2002). The gross domestic product is the most important economic indicator of a country, it shows the level of productivity and efficiency of the country.

Next, I consider it necessary to analyze the GDP in EU member countries from Central and Eastern Europe.

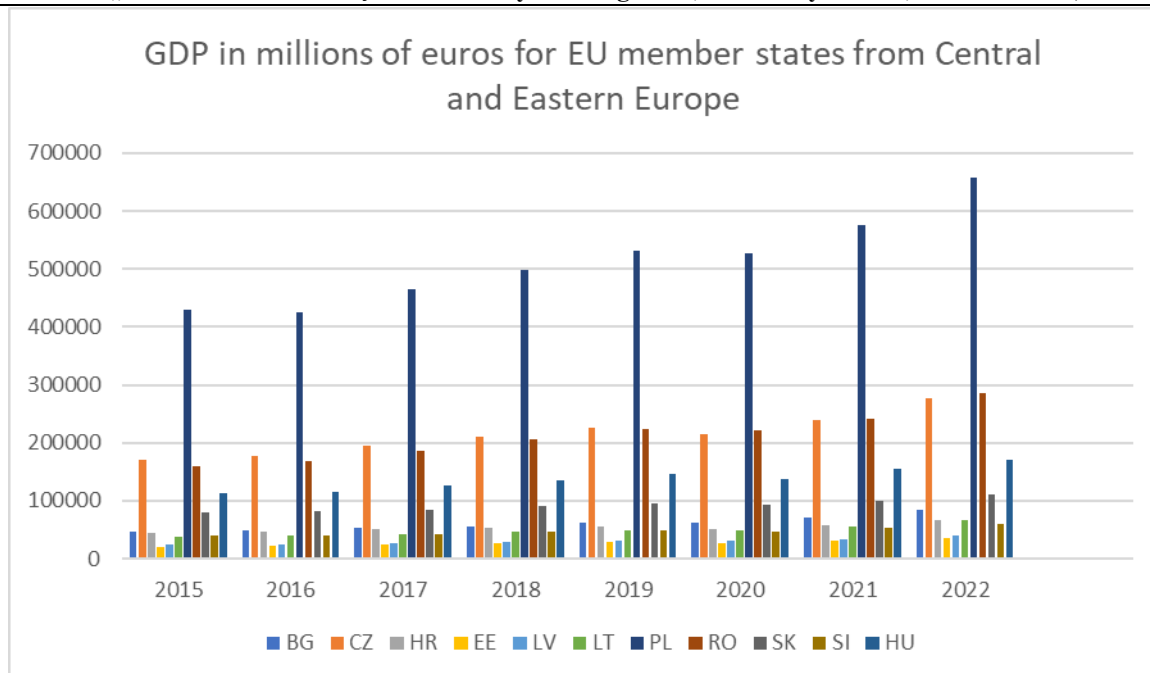


Chart 2 GDP of the EU member countries from Central and Eastern Europe

Source: data taken by the author from <https://ec.europa.eu/eurostat/databrowser/view/tec00001/default/table?lang=en>

From Chart 2, it can be seen that there is an increase in GDP in the EU countries in the period 2015-2022. Among the emerging EU countries in Central and Eastern Europe, Poland is the country with the highest GDP values in this period. It is observed that the emerging countries register a tendency of GDP growth in the analyzed period.

In the following, we will present the nominal evolution of the Romanian Republic for the period of 2015-2022.

Table no 3

Romania nominal GDP, period 2015-2022

Year	Romania nominal GDP (Mil. EURO) - current prices -
2015	160
2016	167
2017	186
2018	206
2019	224
2020	220
2021	241
2022	286

Source: <https://ec.europa.eu/eurostat/databrowser/view/tec00001/default/table?lang=en>

Analyzing the data presented in Table 3, it can be observed that the evolution of the GDP has an upward trend in the period of 2015-2022. However, it is observed that in 2020 the GDP decreases compared to 2019 due to the severe shock generated by the Covid-19 pandemic.

From the analyzes above, it can be seen that the absorption of a volume of EU funds, as close as possible to the maximum rate in relation to the fund distributed within the community framework, both as a whole and in detail, according to the programs and at the level of (co)financed or fully financed projects it is an important target of economic policies, but also a factor of economic growth.

The cohesion policy is certainly the most important source of financing for public investments, in the case of Romania, but also of the other EU countries that benefit from the funds allocated through this policy of the European Commission. Cohesion policy has a significant impact on the economies of EU member states, and the effects of these investments accumulate over a longer period of time.

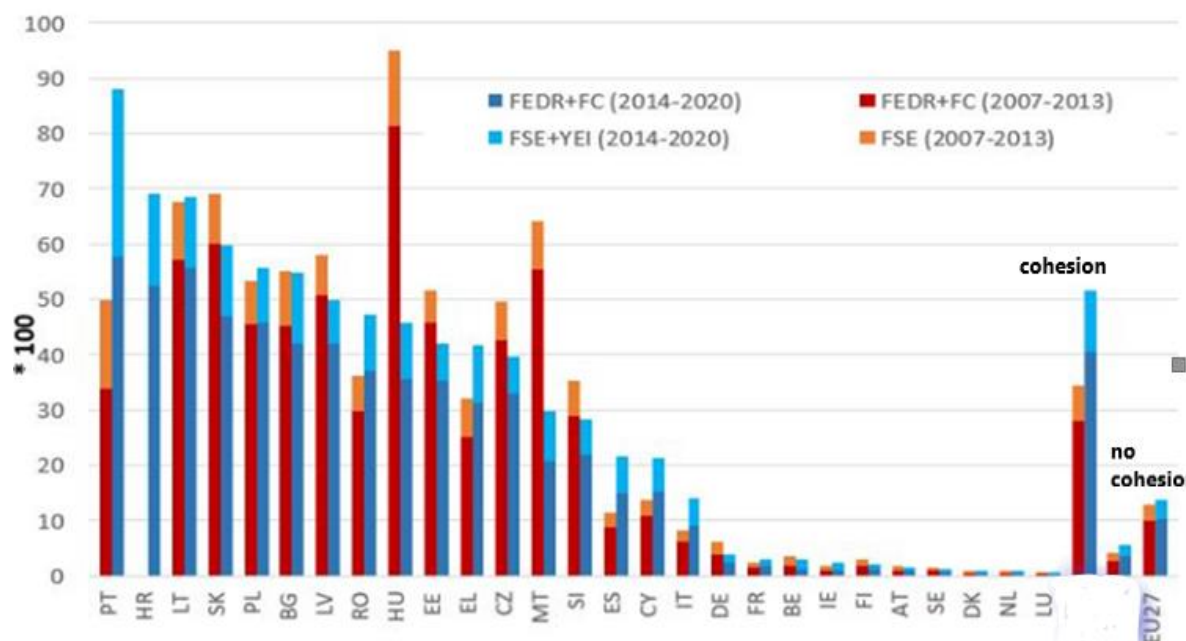


Figure 1 Cohesion policy allocations in relation to public investment, 2007-2013 and 2014-2020

Source: <https://eur-lex.europa.eu/legal-content/RO/TXT/HTML/?uri=CELEX%3A52022DC0034>

It can be seen from Figure 1 that for the beneficiary countries of the cohesion funds, funding for cohesion increased from the equivalent of 34% of total public investments in the period of 2007-2013 to 52% in the period of 2014-2020 (Figure 1). Without cohesion policy funds, the fall in public investment in these countries would have been inevitable. Cohesion policy funds have had a fairly large share of public investment in most of the countries that have benefited from these amounts, but not only in these countries. Countries that do not benefit from this cohesion policy have the advantage of spreading the effects of investments from countries that benefit from the cohesion policy.

There are several factors that can influence the absorption rate of European funds and their impact on investments and economic growth:

- Administrative capacity: An efficient administration of European funds requires solid administrative capacities at governmental and local level. The ability to manage projects, monitor expenses and follow procedures is crucial.
- Strategic planning: A well-designed strategic planning can increase the efficiency of the use of European funds. Projects that are well defined and aligned with the country's strategic objectives are more likely to have a positive impact.
- Legal framework and transparent procedures: A stable legal framework and transparent procedures can help increase investor confidence and speed up the process of absorbing funds.
- Public-private partnerships: The involvement of the private sector in projects financed by European funds can strengthen investments and stimulate economic growth.
- Monitoring and evaluation: Effective monitoring and evaluation mechanisms of funded

projects can contribute to the prompt identification of problems and their timely correction.

Fiscal decentralization has been found to have a negative impact on absorption performance (Tosun, 2014).

The rate of absorption of European funds can also influence the investment climate, as investors can be influenced by a country's ability to absorb and effectively use the financial resources made available by the European Union. A high level of absorption can create a more attractive environment for investment and therefore contribute to economic growth.

3. Conclusions

In my opinion, analyzing the absorption of European funds in Romania and the EU countries, from the point of view of the macroeconomic situation, it cannot be disputed that the European funds had a particularly important and positive effect on the Romanian economy. Practically, any contribution of European funds to the member countries of the European Union led, along with the other financing mechanisms, to an increase in the GDP level, implicitly to economic growth. As far as the absorption of European funds is concerned, administrative capacity and political governance in the member states play a decisive role in this regard.

European funds represent an essential tool for supporting public investments and promoting sustainable economic growth in the member countries of the European Union.

The results of this analysis underline the fact that it is very important that the absorption of European funds is as high as possible and that it is prioritized in order to support sustainable economic development. The comparative analyzes in the paper are mainly for the emerging countries of Central and Eastern Europe, members of the EU, which include the following countries: Romania, Hungary, Bulgaria, Estonia, Poland, Lithuania, Latvia, Czech Republic, Slovenia, Slovakia, Croatia. The selection of these countries is based on the similarities between them (countries that were under communist regimes), the progress made by these countries after the fall of the communist regimes and the potential for public investment for development, which is higher than that existing in developed countries. These analyzes show us where Romania is, compared to the rest of the EU countries, and which are the EU member countries, which our country can take as an example to follow for sustainable development through European funds.

The rate of absorption of European funds and investments are closely related, because the level of absorption reflects the ability of a member state to effectively use and implement the funds received from the European Union in concrete projects. A high absorption rate indicates that the country is effectively using the resources made available through European funds, which can contribute to economic growth.

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