Controversies and Challenges along the Access - Absorption Route of the European Structural Funds

Susanu, Monica
Dunarea de Jos University, Galati, Romania, Faculty of Economics

07. May 2008

CONTROVERSIES AND CHALLENGES ALONG THE ACCESS - ABSORPTION ROUTE OF THE EUROPEAN STRUCTURAL FUNDS

Monica Susanu, PhD, Associate professor
"Dunarea de Jos" University of Galati
Faculty of Economics Sciences
monica.susanu@ugal.ro

Abstract

According to Copenhagen criteria, any country formulating its option to adhere at the European Union has the obligation to meet a series of requirements:

- *the consolidation and the stability of the fundamental institutions that guarantee the lawful state and the human rights;*
- *a functional and competitive market economy on the model of the traditional developed economies;*
- *the reform of the administrative structures in order to ensure the country's compatibility with the status of member state, which involves assuming, accepting and reaching the objectives of the Union from a political, economic and monetary perspective.*

Therefore, the social and economic convergence and cohesion *constitutes the essential working principles of the Union and, at the same time, they contain the quintessence of the operating reason of the* ***structural European funds****, equally oriented during the pre- and post-adherence stage, as true and efficient tools of implementation of the regional policies.*

Co-opted in this continental construction at a moment of real integration effervescence, which took place simultaneously with the expansion of the Union's space, Romania stated its pro-western option without hesitation and, as a result, it aligned its entire social and economic organism to the European institutional and behavioral biorhythm.

Key words*: structural European funds, access, absorption, communitary budget*
JEL *classification:* $\boldsymbol{E_{66}, F_{15}, F_{36}}$

Introduction

Identified as fundamental pillars of the ample process of European construction, **cooperation** and **super nationality** are also the vectors along which the new enterprise has been orienting its evolution. They also create and employ a huge working inventory meant to mobilize the individual efforts so as, by exploiting everyone's strong points, the entire entity may grow and assert itself. All measures taken by the member states (as well as the candidates) in terms of harmonizing, adaptation, compatibility and adjustment of the discrepancies, as well as in terms of generalization of well-being are dedicated to this purpose, as a goal under continuous reconfiguration.

The European structural funds appeared out of the pragmatically assumed necessity of burning out stages and increasing the efficiency of the efforts as a result of a strong institutional ad financial urge, the combination of these two aspects offering an extra guarantee in reaching the goals. Tolerance and mutual respect among all partners are true sources of real smoothing of the disparities among these countries and among the regions of as country, of elimination of any kind of polarization as well as of correcting any possible deviations.

Similarly to the rest of ex-socialist countries, Romania paid the heavy tribute of the totalitarian experiment and, in order to obtain and consolidate the status of member of the selected club of

European states, enjoys financial and institutional support in order to ease many of heavy costs of the dramatic transition towards an open society.

Romania's **access to these funds**, as well as other countries', represents new and difficult challenges, the bright and tempting part of the volume of sums awarded being sometimes shadowed by the precarious nature of the **capacity to absorb** these funds as a delayed and perverse effect of a profoundly costly and wasteful ended regime.

1. The purpose of the European structural funds

The main targets of the European Union's policy of cohesion for the 2007 – 2013 period are to be found in the forecast of the ambitious rates of economic growth and creation of new jobs. At the Union level, the investments in economic and social cohesion for this interval will amount to 308 billion euros (based on the prices of the year 2004), of which over 80% will go to the goal *convergence*, that is to the member states and regions with the lowest level of economic development.

Another 16% of these funds are to support projects regarding the innovation, the sustainable development, the improvement of the access to education and training, according to the goal *regional competitiveness and labor force employment* from the rest of the regions. Finally, according to the goal *European territorial cooperation*, the rest of the sums will finance projects of trans-border, trans-national and inter-regional cooperation projects.

According to articles 158-162 of the Treaty of establishing the European Communities, the Union makes a commitment to promote harmonious general development and to consolidate social and economic cohesion by reducing disparities among its regions. In order to reach these goals, in July 2006, The European Council and Parliament adopted a *pack of regulations* which contain and assign the high *principles* and instruments of action:

- the addition principle
- the co-funding principle
- the refunding principle
- automatic disengagement
- abiding national regulations regarding governmental aid, public acquisitions and equality of chances.

In doing so, the three substantial funds of financial support of these strategic goals, meant to function as efficient cohesion instruments, were established and through the General Regulations defining them, the regulations and standards regarding their enforcement were also stipulated:

- EFRD = The European Fund for Regional Development
- SEF = The Social European Fund
- CF = The Cohesion Fund.

The structural funds represent the second budgetary line of the Union, preceded, as importance, only by the Common agricultural policy. Initially there were five funds, the other two being: AGOF (The Agricultural Guarantee and Orientation Fund) and FIFO (The Financial Instrument of Fishing Orientation). Later on though, these were reconfigured (for instance AGOF became EAFRD = The European Agricultural Fund and Rural Development) and their operating area shifted outside the Structural funds.

Although they enjoy a certain freedom regarding the manner of administration of the Funds, the member states are forced to abide the limits of the regulations and of the general parameters stipulated in the Communitary strategic orientations. On their turn, these entail three guiding lines accompanied by 12 subtitles as follows:

a) **Transforming the European continent into an ever attractive place for investors and employers**, which means:

1. expanding and improving the infrastructure
2. consolidating the synergies between economic growth and environment protection
3. making more efficient the use of the traditional energy sources .

b) **Improving knowledge and innovation as growing factors,** which means :

1. increasing investments in research, development and technology
2. facilitating innovation and stimulating business
3. promoting information society
4. improving access to funding.

c) **Increasing the employment level and improving the professionalism of the employees**, which can be translated more precisely into the fact that one should aim at:

1. expanding and diversifying the labor market, simultaneously with modernizing and adapting the social protection systems;
2. improving the ability of companies and workers to adapt;
3. increasing the investments in human capital by improving education, training and competences;
4. making efforts to maintain health in general and of active population in particular;
5. continuously improving and perfecting the administrative capabilities.

Meant to speed up the structural reforms in some of the regions already included in the Union space, these funds were launched in the '60s and, by the end of the '80s, they suffered a regrouping in terms of both sources and destinations according to the requirements of the integration process whose acceleration became more and more evident.

At the beginning they were planned on five-year periods but since 2000 seven-year periods have been adopted, as in the case of the Funds for 2007 – 2013. The European Union budget stipulates for each programming period of this type specific provisions under the FP label – *financial perspectives*.

Despite the fact that the funds come from Brussels and involve intense negotiations between The European Commission and the governments of the member states regarding the manner of spending them, **The Structural funds are allotted** mostly through national governments to their administrations and corresponding agencies **only at the moment when they benefit from confounding**. There is an exception though in the case of small sums dedicated to technical support at the European level, as well as in the case of a series of Programmes of Communitary Initiative whose proportions have sensibly decreased in the recent years and whose destinations are unitary regulated yet according to the agreements reached between the Commission and each Member state.

2. Romania and the challenges of the capability of absorbing the Funds

As compared to the sums paid as contribution to the communitary budget, Romania might benefit in the following years from three times larger European funds, these being allotted according to the state of economy and not to the manner in which we manage to spend them. The European Commission has programmed the structural funds for a seven-year period and, since their main purpose is to eliminate development differences among the regions of Europe, they are oriented towards the areas where the income is under 75% of EU average GIP per inhabitant. Based on this approach, Romania has been divided into eight regions of development where the income average is up to 30% of the GIP per inhabitant.

Romania will contribute to the EU budget in the following years with approximately 1% of the GIP, which is the equivalent of 1.1 – 1.3 billion euros. More than half of this contribution will be the Gross National Income, which is approximately 700 million euros whilst the revenue coming from VAT and customs taxes will contribute this participation an extra 128 million euros and, respectively, 140 million euros.

The volume of European funds allotted to Romania as a contributing member at the EU budget is as follows:

	2007		2008		2009		2010		2011	
	billion euros	% of GIP	billion euros	% of GIP	billion euros	% of GIP	billion euros	% of GIP	billion euros	% of GIP
Allotted European funds – TOTAL	2,0	1,7	2,9	2,2	3,9	2,5	4,3	2,5	4,5	2,4
Romania's contribution to the EU budget	1,2	1,0	1,4	1,0	1,2	0,8	1,3	0,8	1,3	0,7

Source: *The Ministry of Economy and Finances, The National Institute of Statistics, The National Committee of Prognosis, The National Bank of Romania - 2007*

Romania will benefit, at the same time with the fluxes of pre-adherence funds, from post-adherence funds also which, by the end of 2013, will amount to approximately 28 billion euros, having two major destinations, namely: the common agricultural policy and the social and economic cohesion policy.

European funds allotted to Romania 2000 –2013

	2007-2013	2007	2008	2009	2010	2011	2012	2013
Structural and cohesion funds **TOTAL**	**19.21**	**1.28**	**1.85**	**2.51**	**3.03**	**3.26**	**3.51**	**3.77**
EFRD – The European Fund for Regional Development	8.98	0.60	0.86	1.16	1.42	1.53	1.63	1.79
CF – The Cohesion Fund	6.55	0.44	0.64	0.86	1.03	1.11	1.19	1.28
ESF –The European Social Fund	3.68	0.23	0.36	0.49	0.58	0.63	0.69	0.70
Funds for Agriculture and Rural Development **TOTAL**	**8.25**	**0.76**	**1.05**	**1.35**	**1.27**	**1.27**	**1.28**	**1.28**
EFARD – The European Fund for Agriculture and Rural Development	8.02	0.74	1.02	1.32	1.24	1.23	1.24	1.23
EFF –The European Fishing Fund	0.23	0.02	0.02	0.03	0.04	0.04	0.04	0.05
T O T A L :	**27.47**	**2.03**	**2.90**	**3.86**	**4.30**	**4.54**	**4.79**	**5.05**

Source: *The Ministry of Economy and Finances*

According to the information from the Ministry of Economy and Finances, the European funds will finance in the 2007-2013 period a series of key domains in the long term evolution of the country on the basis of the allocations on the following operational programs:

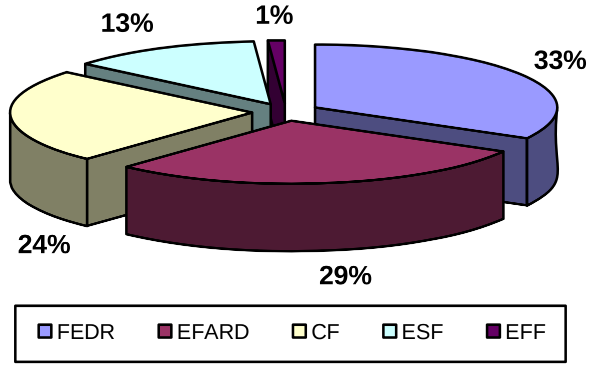
- 23.7 % in the transport infrastructure;
- 23.5 % in environment protection;
- 19.4 % for regional development;
- 18.1 % for the development of human resources, research and education;
- 13.3 % to improve competitiveness;
- 1.1% to better the administrative capability and
- 0.9 % for the generic destination of technical support.

Coming from the *European Structural Fund (ESF)*, form the *Regional Development Fund (RDF)* and from the *Cohesion Funds*, the money directed this way will finance various strategies of development, of employment and labor force training, as well as ample operations of decreasing the economic discrepancies among various regions in order for the country to have an evolution according to the European standards.

The goal of *convergence* aims at economic competitiveness, environment and transports, leveling the disparities and reaching administrative efficiency of institutions. The second strategic goal that of *territorial cooperation* will focus on cooperation at national, regional and European level especially to prevent and fight natural disasters.

According to the development necessities and keeping in mind the need to ensure the decrease of disparities among regions and areas, the order of priorities results from the very proportion of each fund the way they are to be seen in graphic presentation below which contains the **structure of the European funds allotted to Romania for 2007 – 2013**:

- ***33 % - EFRD – The European fund for Regional Development***, whose main destination is the decrease of the major differences within the Union and for this purpose support is given to programs of research-development, investments in infrastructure and environment protection, in extending the economic progress and territorial cooperation which should finally lead to action that would generate the growth of competitiveness;
- ***29 % - EFARD – The European Fund for Agriculture and Rural Development,*** as a source descending from the old Agricultural Guarantee and Orientation Fund which was launched to support the ample CAP programs – common agricultural policy – in the case of which expenses grew in a dizzy rhythm with over 20% annually;
- ***24 % - CF – The Cohesion Fund*** supports the measures of environment protection and of pan-European transport networks. Along with EFRD this fund finances multi-annual investments programs managed in a decentralized manner and it is open for those member states whose gross national income is situated under 90% of the communitary average;
- ***13 % - ESF – The European Social Fund*** is implemented in conformity with the European employment Strategy and it focuses on several areas that are considered major from this point of view:
    - increasing the adaptability of the employees and companies;
    - improving the access to labor market (filling and participating);
    - emphasizing social inclusion by fight discrimination (especially by means of facilities offered to the disadvantaged persons) and
    - programming the partnership for reform in the employment area and for intensifying/accelerating the inclusion;
- ***1 % - EFF –The European Fishing Fund***, created as a financial instrument of orienting fishing which it approaches separately from the measures of communitary agricultural policy. The main destinations of allotting the sums from this fund include aquaculture, the fishing fleet and special equipments in fishing harbors as well as prospecting the specific markets along with improving the trading processes of fish products and aquaculture.



Source: The Ministry of Economy and Finance, The National Bank of Romania - 2007

Increasing the **absorption capability** of the Structural funds may be limited to full understanding of all principles which make the foundation of the union policies and, which is especially important, their cumulative observing as well as the proposals and provisions of the Europe Commission regarding efficiency and transparency. Thus, the door is opened for intervention into the control and monitoring of the financial aspects involved as well as for conditioning the payments by the member states' commitment regarding the reliability of the country's systems of management and control, the clarification of the mechanisms of financial correction of possible errors and the abiding the convergence programs.

The funds' functioning at national level is based on two main documents:

1. – *the national development plan*, where mention is made regarding the destinations that the country decides to give to the received sums; although numerous variants are conceived, many of them disappear during the negotiations ;
2. – *the sole programming document*, representing the communitary support framework.

Each national program has a corresponding operational program and a secondary program while the documentation constitutes the object of a laborious process of information, consulting and negotiation.

Through its Department of regional policies, The European Commission has decided in the cases of Romania and Bulgaria that starting from January 1st, 2007 the principle of competitiveness will prevail, making thus a fundamental change of the principle and manners of accessing the communitary funds and of cohesion. The consequence of this decision resides in the fact that the project evaluation will be done by banks, according to efficiency criteria, thus eliminating from the "*picture*" various public servants willing most often than not to collect dubious commissions from the applicant. On its turn, efficiency will be quantified in terms of added value: creation of jobs, production of goods and services, developing the existing capacity and so on, and not only in terms of exploiting the already created facilities.

The problem of fund absorption difficulties is common for many EU countries and it appears even more naturally in the case of new members, the ex-socialist countries.
Despite the fact that Romania will not succeed in completely absorbing the funds, it will still contribute 1% of GIP to the communitary budget although it should be a net beneficiary of these Funds. Provided the absorption rate goes up to 50%, Romania becomes a net contributor to the communitary budget.

The experience of the countries from the previous adherence wave that of May 1st 2004 shows that none of them has reached such a high level of absorption.

The absorption of European funds

(structural, cohesion, agricultural and rural development funds)
- International comparison -
- in the adherence year -

Country	Absorption rate		Net position against EU budget – percentage of GIP of each country – ("+" net absorption) ("–" net contribution)
The Czech Republic*	41.5		0.18
Poland*	42.8		0.19
Slovakia*	41.6		0.24
Hungary*	42.9		0.38
Romania**	**21.7**	**of which:**	**- 0.36**
		• 32.7 – structural and cohesion funds 3.0 – agricultural and rural development funds	

*EU adhesion on May 1st 2004
** EU adhesion on January 1st 2007
Source*: The European Commission, the Ministry of Economy and Finances - 2007*

The ten states that became members on May 1st 2004 used funds of only 5.6 billion euros from the total of 21.5 billion euros they had at their disposal. Poland and the Czech Republic offered the most relevant model of deficient absorption of European funds. For instance, out of 11 billion euros allotted *Poland* in the first two years following the adherence, only 2.7 billion euros were spent. In *The Czech Republic* only 0.52 billion euros were spent from a total of 2.2 billions. *Hungary* used only 960 million euros from the nearly 3 billion euros that it received, and *Slovakia* – 452 million euros out of 1.6 billion euros.

In all these countries, as well as in Romania, the main funding necessities are those related to infrastructure and environment protection, education and scientific research, and accessing along these directions is very difficult because it involves strict bureaucratic procedures, that each country mad even more complicated due to usage reflexes of a thick bureaucratical apparatus.

The figures and the statistics cast a shadow of doubt upon these states' ability to absorb the 167 billion euros allotted by the EU for the 2007-2013 period.

Though no dead line has been established for spending the allotted sums for the 2004-2013 interval, starting from 2007 the EU allows a period of maximum two years for the allotted funds to be spent within the budget of a certain year.

The European executive underlined the fact that a correct use of these funds might ensure over 2.2 billion jobs and might even generate 12% growth of the GIP. It is worth mentioning the fact that the main beneficiaries of the funds in 2005 were Greece and Portugal, while the main sponsors were The Netherlands, Sweden and Germany.

According to a study made by AEG – The Applied Economics Group, from the above mentioned perspective, Romania is a net contributor to the communitary budget, especially as not even the pre-adherence funds have been fully spent. By the middle of 2006 only 27% of the Romanian firms had managed to apply and the percentage is similar in the case of the companies or organizations which declare themselves ready to apply for structural funds.
A certain improvement may be noticed though in 2007 but things are still far from the position of net contributor to the communitary budget.

European funds allotted for 2007 and used by Romania

	Allotted	Used	Absorption rate (%)
Total structural and cohesion funds	**1.28**	**0.42**	**32.7**
- The European Fund for Regional Development (EFRD)	0.60	0.18	30.1
- The Cohesion Fund (CF)	0.44	0.16	36.8
- The European Social Fund (ESF)	0.23	0.07	31.6
Total agriculture and rural development funds	**0.76**	**0.02**	**3.0**
- The European Fund for Agriculture and Rural Development (EFARD)	0.74	0.01	1.0
- The European Fishing Fund (EFF)	0.02	0.02	100.0
TOTAL	**2.03**	**0.44**	**21.7**

Source: *The Ministry of Economy and Finances, the National Bank of Romania - 2007*

Conclusions
Convergence, competitiveness and cohesion, as well as European territorial cooperation represent not only the working premises of the European bodies but also the strategic objectives of all future applications regarding the access and absorption of the structural funds.

Conditioned by the macro-economic situation, the capacity to absorb European funds implies solutions and approaches on two major levels.

On the one hand, **the financial capacity of absorption** consists of the country's potential of co funding the European Union's projects. This would mean that, at least till the moment of adopting the euro, Romania should maintain a rhythm of annual economic growth of over 5% which should generate co - funding of about 1% of the annual GIP, without having a fiscal deficit larger than 3% of the GIP.

On the other hand, **the administrative capacity of absorption** means an increase of the abilities to manage the assistance offered by the European Union in order to increase the contribution of the private sources of co funding, both domestic, and attracted (by credits), as well as the level of eligibility of the projects filled for funding.

Since the financial assistance of the European Union alone is insufficient, only the cumulative approach of the two aspects, with all their immanent significances – might ensure a supplementary guarantee of viability, credibility and, of course, success of all development enterprises.

References:

1. BREZEANU, Petre, ***„Finanțe europene”***, ed. C.H. Beck, Bucureşti, 2007;
2. HEN, Cristian, LEONARD, Jacques, ***„Uniunea Europeană «un memento complet asupra integrării europene »”***, ed. C.N.I. „Coresi” S.A., Bucureşti, 2005;
3. COURTY, Guillaume, DEVIN, Guiullame, ***„Construcția europeană”***, ed. C.N.I. „Coresi” S.A., Bucureşti, 2003;
4. DOBRESCU, Emilian M., ***„Integrarea Economică”***, 2nd ed., revised and added, ed. All Beck, Bucureşti, 2001.

*** The Ministry of European Integration (Ministerul Integrării Europene) www.mie.ro
*** The Ministry of Economy and Finances (Ministerul Economiei şi Finanțelor) www.mefromania.ro
*** The European Commission Information Center (Centrul de Informare al Comisiei Europene) www.infoeuropa.ro
*** The National Bank of Romania (Banca Națională a României) www.bnr.ro
*** The Applied Economics Group (Grupul de Economie Aplicată) www.gea.org.ro