

ANALYSIS OF THE ABSORPTION OF EUROPEAN STRUCTURAL AND INVESTMENT FUNDS IN THE NEW MEMBER STATES OF CENTRAL AND EASTERN EUROPE

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Abstract

The present research aims to analyze the impact of the allocation of structural and investment funds on regional development in the new member states of Central and Eastern Europe and to identify pragmatic ways to improve absorption, useful in the future financial exercises.

The aim of the research is to discover ways to improve the quality of life and increase the absorption of European funds in Central and Eastern Europe by: identifying the ways in which the countries of Central and Eastern Europe know how to benefit from and manage the structural funds, funds in which they participate by co-financing projects financed from the respective funds, identifying the main shortcomings of the systems, proposing viable solutions to improve the absorption model of the funds.

Keywords: European funds, absorption capacity, regional development, structural and investment funds

JEL classification: F62, F63, F65

1. Introduction

European funds for the Central and Eastern European region have had a major impact on the economic growth of each country in various areas, the most obvious being in transport infrastructure and environmental protection, both of which were considerably neglected during the communist regime. A large part of the funds has been invested in improving living conditions, citizen involvement in the community, supporting non-governmental organizations, restoring historical heritage, reorganizing urban areas and expanding urbanization.

Many government administrations, as well as local authorities and municipalities, have used funds to improve their IT systems, for data processing, e-government and to facilitate public access to current communication technologies. In addition, the accessibility of EU funds has evolved in parallel with the global economic crisis. Politicians and residents in Central and Eastern Europe have found that efficient management of funds can be extremely beneficial in supporting their economies during periods of economic recession.

Absorption rates can be defined as the percentages of EU funding that have been paid by the European Commission to Member States' Operational Programs (OPs) at a given point in time.

Understanding the factors that determine the absorption of cohesion policy funds is essential for shaping the future of this policy, which aims to promote economic growth and social cohesion and reduce disparities between EU Member States and their regions. In particular, it is essential to understand what influences the speed of absorption, how it is linked to the effects of cohesion policy, and whether factors that accelerate (or hinder) the absorption of funds can and should be encouraged (or eliminated) at both EU and Member State level.

The capacity to absorb European funds refers to the extent to which a country is able to consume financial resources that have been allocated in the multiannual financial framework. Therefore, the absorption rate of European funds is calculated based on the amounts reimbursed by the European Commission to the Member State. These amounts correspond to the expenses incurred by national beneficiaries of European fund projects, validated and settled by national administrative bodies.

The absorption capacity of a country depends on several factors manifested both at European and national level. It has also been observed that there is a link between the level of economic development of a region and its capacity to absorb European funds. The most common obstacles in this regard include the difficulty of co-financing, the lack of staff with experience in European funds, poor cooperation between local partners, so we can specify that the main influence on the absorption capacity is the administrative-managerial and co-financing capacity.

The absorption of Structural Funds is a process that manifests itself in different stages. A first stage would be the programming architecture of the European Funds (number of priorities, their content, managing authorities, intermediate bodies and final beneficiaries); a second stage would be the level of commitment (funds allocated to projects by managing authorities); and the third stage would be payments to beneficiaries at different implementation levels.

Absorption issues depend to a large extent on institutional factors. At EU level, institutional factors are primarily linked to the European Commission: the transparency of the fund allocation process, the consistency of the use of the various funds and other factors such as bureaucratic administration. Other important determinants of absorption capacity relate to programming and institution building and the development of administrative capacity in the pre-accession period. In line with the Commission's recommendations and the best practices of EU countries, the smaller the number of institutions involved at different levels of management and programmes (sectoral and regional) in the new member countries, the greater the possibility of higher absorption rates of structural funds.

2. Literature review

The starting point of this research was the bibliographical and webliography documentation from books, national and international articles or various current studies in the specialized literature. I will take into account both the national and European context. I took into account the statistical reports made available by local, national and, last but not least, those at the European level. I used the "Web of Science" platform to obtain bibliographical information.

Sabău-Popa (2010) briefly presents the budgetary developments of the European Union, since its establishment, the budgetary process at the level of the European Union, the budgetary impact of the member states on the European Union. The last

chapter of the work "*Bugetul Uniunii Europene și fondurile comunitare*" analyzes in detail the financing provided to the member states through the community funds allocated to the various common policies of the European Union. The main contributions of the paper are clarifications regarding the European Union's own resources, common policies and community funds, graphic and descriptive analysis of European Union payments on the territory of the Member States, their contributions to the community budget, analysis of the absorption capacity of structural and cohesion funds in Romania, the conclusion reached being that facilitating the fastest possible absorption of funds allocated to Romania could be achieved by improving administrative capacity, in order to increase the eligibility of projects, establishing shorter deadlines for evaluation and response to funding applications, ensuring an adequate level of co-financing and using the expertise of commercial banks to access community funds.

Popescu, A. S. (2015), *The absorption capacity of European funds – Concepts*. This article highlights a series of influencing factors that can be grouped into three categories: macroeconomic capacity, financial capacity and administrative capacity.

Vladoi, J. M. (2021), presents in the work "*Accesarea fondurilor europene: miza pentru dezvoltarea României*" conceptual aspects regarding the European Union, principles and values that govern it, the purpose for which European funds are established and how they are allocated and reimbursed to the Member States. The investment priorities for the next financial period 2021-2027 are highlighted, the role and impact of European funds on the economies of the Member States, their contribution to economic growth, exemplifying successes through the Poland model as a success story. It presents how the funds allocated in the periods 2007-2013 and 2014-2020 have been accessed and managed to date. It also identifies the difficulties encountered and the impact of the deficiencies found, the causes that generated them and the effects recorded in the short, medium and long term that led to the recording of a deficient absorption.

Țigănașu R., Încălțărău C., Pascariu G.C (2018), *Administrative Capacity, Structural Funds Absorption and Development. Evidence from Central and Eastern European Countries*. The main purpose of this article is to analyze the impact of administrative capacity on the level of absorption of European funds in Central and Eastern European countries (CEEC), given that they were facing common transformations in the transition period, as well as the impact of structural funds on development, controlling for the level of absorption. Multiple regression analysis was used to test the impact of administrative capacity on the level of absorption in the period 2007-2015, on the one hand, but also to estimate the impact of structural funds on development, on the other hand. The results showed that institutional quality and management performance positively influenced absorption rates and that SFs were able to support economic development.

Antonescu, D. (2019), *Politica de coeziune și dezvoltare regională în noua perioadă de programare 2021-2027*. This article contains the main aspects and elements for the next programming period and the future regional policy of the European Union. It also compares these proposals with previous periods, presents the main guiding principles and an overview of the future allocation process.

Nevima J. and Kiszova Z. (2011), *Evaluation of regional competitiveness in case of the Czech and Slovak Republic using analytic hierarchy process*. This article

focuses on the alternative approach in the evaluation of regional competitiveness in the case of the Czechs and Slovaks. It argues that gross domestic expenditure on research and development is the source of future economic growth.

3. The impact of structural and investment fund allocation on regional development in the new member states of Central and Eastern Europe

Before joining the European Union (EU), the Central and Eastern European countries (CEEC) used pre-accession instruments that helped the transition to a market economy through institutional progress, supporting the private sector, infrastructure and stimulating economic development. The Central and Eastern European countries (CEEC) went through a process of understanding the implementation mechanism related to the structural instruments. As member states of the European Union, the Central and Eastern European countries focused their attention mainly on creating optimal conditions for the efficient absorption of European funds and on an efficient management aimed at supporting socio-economic cohesion in the region (Țigănașu R., Încălțărău C., Pascariu G.C., 2018). The absorption of European funds is a challenge for each of the member states, but even more so for those that later joined the European Union.

Absorption capacity is closely linked to the country's GDP, price stability, interest and exchange rates, and the economy's ability to respond to additional costs. Financial capacity primarily refers to the extent to which administrative institutions can co-finance programs and encourage other (private) entities to participate and support these programs. Administrative capacity is the extent to which authorized institutions can support the absorption of funds, the skills needed to design and manage programs.

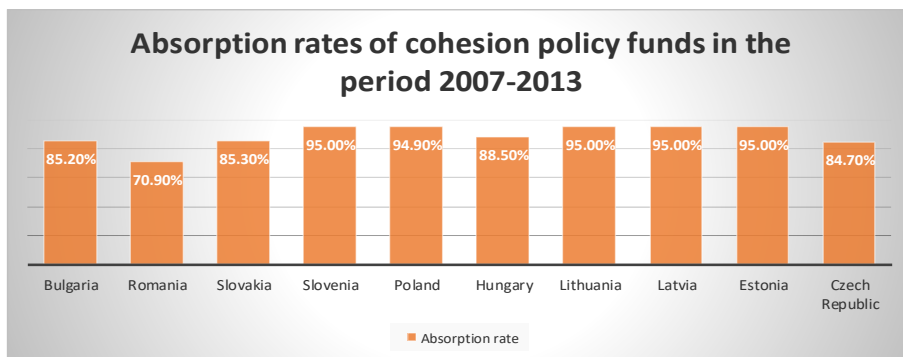
Barriers to absorption may include: delays in the adoption of EU legal frameworks and guidelines, which may also change frequently, as well as late adoption and overlaps between the periods of the Multiannual Financial Frameworks and Operational Programs; limited quality of governance and lack of continuous political support, political instability; GDP per capita, limits on available counterpart funds, low level of development and innovation infrastructure, low investment, vulnerability to external crises, low exposure or ability to benefit from knowledge spillovers, limited workforce capacity; and inefficient institutional structures, training gaps, low employment of the public administration workforce, inadequate practices and procedures for selecting operations and insufficient digitalization (Ciffolilli A., Pompili M., Borowczak A., Hranilovic M., 2024).

Regional development promotes balanced interregional and intraregional growth, which it uses to reduce regional disparities. In addition, it ensures the integration of these regions at the national level (Hossam Abdel-Ghaffar F. M., Abdel-Latif Aboul-Atta T 2019). These processes could increase the country's competitiveness on an international scale, the pre-established objectives of regional development can be explored in the following point: achieving a balance between production, quality and level of service and volume of consumption, population growth and improving the quality of life, reducing development gaps between and within territories and establishing optimal use of available resources in a sustainable manner, strengthening regional specialization, as well as ensuring and developing

infrastructure, providing job opportunities and restricting internal migration between regions, diversifying economic structures in regions and promoting economic cooperation internally and externally, by distributing projects and investments in accordance with the conditions, potentials and needs of each region, thus avoiding uneven growth and subsequent problems.

The indicators for measuring the impact of regional development at the national level are analyzed and determined by numerous studies in which the authors confirmed the links between some indicators: the implementation of the GDP indicator was influenced by the opinion of Sen A. (1999) who considered the Gross Domestic Product as the main means of achieving human development; another indicator, research and development expenditures and their growth are very important for increasing competitiveness. Nevima J. and Kiszova Z. (2011) argue that gross domestic expenditures for research and development are the sources of future economic growth; Michaud P.C. and Soest A. (2008) argue that in many industrialized countries there is a positive association between health, wealth and population; health tends to increase with the level of economic development of the country. At the same time, improvements in health tend to reduce infant mortality rates; Eugenio-Martin, J. L., Morales, N. M., and Scarpa, R. (2004) state that tourism has two positive effects on the economy: on the one hand, an increase in production and income; on the other hand, since the tourism sector requires an intensive workforce, it causes an increase in employment. Similarly, tourism plays an important role in solving economic and social problems, providing more jobs, initiating an increase in the employment of the economically active population and increasing the welfare of a nation, and at the same time has a stimulating effect on the development of many related areas of the economy – contributes to socio-economic development; Basu, S., Basu, P. (2005) consider that the human development index is primarily a national-level indicator, estimated for a country as a whole, but due to its general nature it cannot be applied to all economies in general. Therefore, many countries have introduced their own modified indices to better reflect local circumstances.

Figure 1 Absorption rates of cohesion policy funds in the period 2007-2013 in Central and Eastern Europe



Source: data taken from Țigănașu R., Încălțărău C., Pascariu G.C (2018), p. 46

Some states manage to implement coherent strategies that facilitate the path to performance in attracting European funds, others, on the contrary, get stuck in obstacles related to the quality of governance, stability laws, macroeconomic climate, etc. Of the 10 countries analyzed (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), 8 entered the European structures earlier, in 2004, which certainly influenced the values of the indicators that were chosen for the analysis. Since the first group had approximately three more years to better adapt to the procedures for submitting, evaluating, implementing and monitoring projects, they showed a better performance in the 2007-2013 programming period.

Regarding the absorption levels of cohesion policy funds, the absorption performance of the Central and Eastern European countries proved to be quite different. While Estonia, Latvia, Lithuania, Slovenia and Poland had the highest absorption rates, reaching around 95%, the other countries had absorption levels below 90%. Romania showed real difficulties in attracting structural and investment funds, lagging far behind the other Central and Eastern European countries with only 71%. However, it should be recalled that payments could have increased even more after 2015, as the European Commission allowed some of the countries to extend the initial implementation period, from n+2 to n+3.

Figure 2 Institutional quality, management performance in Central and Eastern Europe in the period 2007-2013



Source: data taken from Țigănașu R., Încălțărău C., Pascariu G.C (2018), p. 46

The institutional quality and management performance index ranges from 0 to 1, with 1 indicating the maximum level of the indicator (maximum efficiency).

Next, regarding the differences in institutional quality, management performance and absorption rates (calculated as a percentage of funds paid out of the total budget available), they are closely linked. While Estonia, Latvia, Lithuania, Slovenia and Poland have the highest values of the indices in terms of both institutional quality and management performance, which helped them to achieve the highest absorption level at the end of the 2007-2013 programming period, Bulgaria and Romania are placed at the other end of this ranking in terms of absorption, demonstrating weak administrative capacity. But administrative capacity does not guarantee high

absorption, as Slovakia and the Czech Republic experienced low absorption levels, despite good scores in terms of both institutional quality and management performance.

Also, high absorption is not a sufficient condition for development. Among the best absorption performers, Latvia, Estonia and Slovenia recorded the lowest economic growth rates. In Slovenia, EU funds could not compensate for the negative impact of the economic crisis and recorded negative growth (Slovenia – from 87% in 2007 to 82% in 2015). On the contrary, Romania, despite its really poor absorption performance, recorded the fastest catch-up during this period from 42% in 2007 to 56% in 2015.

Bulgaria has made great efforts to increase the absorption of funds. The acceleration of implementation achieved was the result of substantial improvements in the allocation and use of European funds.

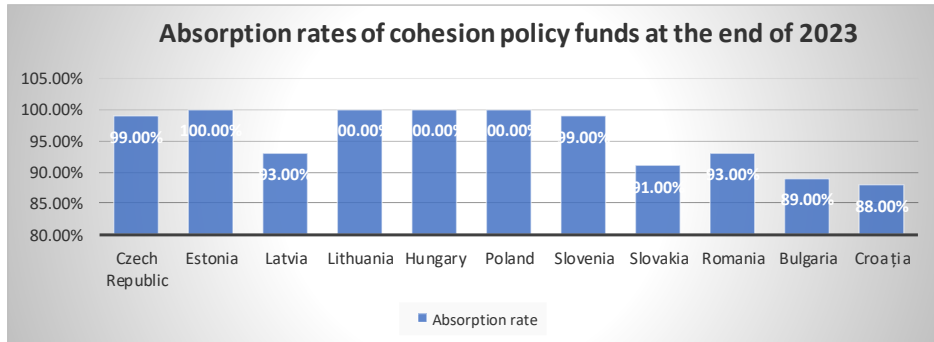
The limited administrative and technical capacities of public administrative bodies at local and beneficiary level contributed to delays in the absorption of funds in the case of Croatia.

The Czech Republic has been criticised on several occasions for errors and lack of transparency in public procurement, which led to the suspension of payments for some programmes. Complicated administration caused a delay in reimbursement payments, which led to insufficient use of allocated funds.

According to the Ministry of Finance of the Republic of Latvia, the results achieved in the 2007-2013 programming period show that there have been positive contributions to the Latvian economy and its population. For example, in the field of labour and social assistance, 148,609 unemployed and job seekers were retrained and educated; 205,457 unemployed were involved in useful social work; and 59,525 people at risk of social exclusion were supported. In the field of education, 21,832 teachers in general education improved their skills and qualifications, 71,284 students in vocational education received direct support in the form of scholarships, and 153 research projects received funding.

The Romanian authorities responsible for the implementation of the Structural Funds have adopted a set of measures that have led to an increase in the absorption rate in the 2007-2013 programming period. The most important include: Improving the cash flow for public and private beneficiaries who cannot pay invoices for goods, works and services by introducing the direct payment mechanism for payment requests; Reducing the procedural deadline for processing reimbursement requests from 45 to 20 working days.

Figure 3 Absorption rates of cohesion policy funds at the end of 2023, by country



Source: created by the author according to information available on the website https://cohesiondata.ec.europa.eu/cohesion_overview/14-20

In Poland, the absorption rate of cohesion policy funds was 99.4% at the end of 2023, well above the EU average (90.4%). Obstacles to absorption related to the complexity of EU rules and uncertainty about their application were, for example, a weak alignment between national and EU procurement legislation causing uncertainty in the 2014-2020 period, while another cause for doubt in 2021-2027 is the application of the DNSH principle. Particularly for large infrastructure investments, very complex and lengthy public procurement procedures are a considerable delaying factor. EU-specific provisions on the eligibility of certain categories of aid are also considered difficult to apply or inadequate (e.g. monitoring mechanisms or the eligibility of costs for the modernisation of heating in buildings) and limit the absorption capacity of beneficiaries.

Notable obstacles are also the significant increase in costs in the construction sector, partly due to investment flow/market saturation and partly due to external factors, such as the consequences of the war in Ukraine.

Solutions adopted in Poland to address implementation obstacles include legislative initiatives undertaken to stimulate behavioural change and absorption of funds in some policy areas, such as environment and energy, where absorption is more difficult (e.g. specific initiatives taken to encourage fuel switching); conducting an assessment of the readiness of various beneficiaries to propose projects; using a phasing mechanism for major infrastructure projects (e.g. rail infrastructure); strengthening the capacity of contracting departments (e.g. temporarily moving experienced staff from implementation or control departments to contracting); and improving the digitalisation of application, selection and contracting processes.

In Bulgaria, the absorption rate of cohesion policy funds was 89.2% at the end of 2023. Significant absorption obstacles are encountered in large infrastructure projects, which require longer time for the preparation of technical documentation, procurement, execution and final approval. For example, the delay in the implementation of railway projects influences the overall absorption rate of the programmes. A problem affecting public works is related to archaeological discoveries, which immediately block investment projects and can sometimes take a year or more to proceed. Another cause of delay is related to the fact that some

projects start only with a pre-feasibility study, but have to be significantly changed in the technical design phase.

In Croatia, the absorption rate of cohesion policy funds was 87.7% at the end of 2023. The obstacles to absorption mainly relate to the national context and administrative capacity. Project preparation procedures are very long, as ownership issues and permits need to be resolved. Complaints are also a significant source of delays. There is a clear need to strengthen the capacity of technical bodies in relation to project planning (e.g. the ability to identify a pipeline of projects ready for financing).

4. Conclusions

The capacity to absorb European funds refers to the capacity of a country to consume financial resources that have been allocated in the multiannual financial framework. Thus, the absorption rate of European funds is calculated based on the amounts reimbursed by the European Commission to the Member State. These will correspond to the expenses incurred by the national beneficiaries of European fund projects, validated and settled by the national administrative bodies.

The process of absorption of structural funds occurs in different stages. A first stage would be the programming architecture of the European Funds; a second stage would be the level of commitment; and the third stage would be payments to beneficiaries in different implementation levels.

Absorption capacity is closely linked to the country's GDP, price stability, interest and exchange rates, and the economy's ability to respond to additional costs. Financial capacity primarily refers to the extent to which administrative institutions can co-finance programs and encourage other (private) entities to participate in and support these programs. Finally, administrative capacity refers to the extent to which authorized institutions can support the absorption of funds, the skills required to design and manage programs.

The main problems that characterize the absorption of European Structural and Investment Funds are: co-financing and ineligible expenditure, access to European financial resources, absorption situation, simplified costs, bureaucracy and procedural excess, the principle of co-implementation, programming errors.

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