Considerations for improving the mechanism of absorption and managing EU funds in the next programming period 2014-2020

MIHAELA ADINA APOSTOLACHE
MIHAI CRISTIAN APOSTOLACHE
Department of Economics, Marketing and Business Administration
Oil-Gas University of Ploiesti
Ploiesti, Bucharest Street, No.39, 100680, Prahova County
ROMANIA
mihapostolache@yahoo.com, mihaiapostolache5@yahoo.com

Abstract: In the implementation of programs involving EU funds, EU member states have increased responsibilities, with the trend of decentralization of structural instruments management. On this background, a growing attention is given to the role of administrative capacity as a factor influencing the absorption capacity and the efficient management of these funds. In addition, in any field of public interest, ensuring the functionality and management of EU funds absorption is governed by a regulatory framework whose implementation requires continued compliance with the principles of intervention.

Key-Words: EU funds, absorption, management, administrative capacity, strategies, mechanisms, programs

1 Introduction
The experience of member states on the proper management of the Community funds proves the special attention required to be given to the administrative capacity. If we take into account that in order to achieve this it is necessary, on the one hand, the absorption capacity of the institutional system created by state in question to manage funds and, on the other hand, the absorption capacity of the beneficiaries targeted by these funds, we may consider that there are two distinct features, namely absorption capacity of the supply side (of funds) and the absorption capacity of the demand. The latter has to do with the capacity of potential beneficiaries to create projects and to co-fund. For the next programming period 2014-2020 is difficult, if not impossible, to conduct an assessment of these features before actual deployment of the programs involved in the use of European funds [1].

2 The role and importance of administrative capacity in absorption and management of EU funds
The absorption capacity can be, in this context, the degree to which a member state is able to use the financial resources allocated through the structural funds and the cohesion fund, effectively and efficiently [2]. The usage of Community funds depends on the extent to which the absorption environment was structurally reformed.

States have developed various strategies for structural and cohesion funds, in relation to their level of development and the political choices of the respective governments. At a European level there have been outlined some difficult strategic directions [3], such as:

- national convergence versus reduction of regional disparities;
- long-term investments versus short-term investments;
- the territorial concentration of funds versus a relatively balanced distribution on the national territory;
- centralization versus decentralization.

The main factors that directly influence the absorption capacity are [4]:

1. Macro-economic absorption capacity (determined by the overall macro-economic situation), which can be defined and measured in terms of Gross Domestic Product (GDP). The macroeconomic capacity links to:
   - The need to increase budget expenditures as a result of adhesion;
   - Ability to absorb macroeconomic effects resulting from additional costs that will be incurred. It is then clear that all of these costs can lead to an increase in aggregate demand, but may also have effects on aggregate supply, especially that of its component that is related to the labor market (given
that the growth of economic activity generated by the transfer of EU funds could lead to insufficient resources skilled labor in certain sectors and / or regions of the country). All these issues are linked also to the nominal convergence (price stability, interest rates and exchange rates - massive foreign capital inflows could put pressure on it, with potentially negative consequences on competitiveness) and to the real one (convergence in the sense of the cohesion policy, namely socio-economic development and reducing disparities towards the EU average). This requires an ex-ante macroeconomic impact of structural funds made when developing national plans for the future programming period 2014-2020.

2. Financial absorption capacity, which can be defined as the ability to co-finance EU projects and programs, plan and guarantee these contributions through multi-annual budgets, to collect contributions from various interested partners in the programs or projects;

3. Administrative capacity, defined as the ability and skill of central and local authorities to prepare plans, programs and projects appropriate and, in the allotted time to decide on programs and projects, to ensure coordination of key partners, to meet the administrative and reporting requirements and finance and effectively supervise the implementation, avoiding as much as possible malfunctions.

If the first two factors will be only the natural consequence of increasing economic development of the country, the administrative capacity may be subject to direct intervention through actions to reform it. [5]

It is considered that the main issues that countries have to face are legislative, institutional and budgetary [6], such as:

- Legislative framework:
  - Legislation of regional policy, economic development;
  - Criteria for selecting priority areas;
  - Compatibility with Community legislation and policies (i.e. environmental regulations on procurement, equality between men and women, etc.);

- Institutional framework:
  - Identification of the responsible authorities;
  - Horizontal division of responsibilities (i.e. allocation of responsibilities between ministries);
  - Inter-ministerial coordination mechanisms;
  - Vertical division of responsibilities (i.e. allocation of responsibilities between different levels of government - central, regional and local);
  - Monitoring and evaluation system of structural expenditure;
  - Information and publicity measures concerning the Structural Funds.

- For the budgetary framework:
  - Identify the costs of public investment;
  - Budgetary procedures in effect on investment spending (commitments and payments);
  - Mechanisms to ensure co-financing;
  - Financial control systems on structural expenditure; internal and external audit;
  - Procedures and responsibilities in the management of fraud and irregularities.

The financial turmoil that started internationally in 2007 and that was quickly transformed in 2008 into a large-scale economic crisis and that has moved quickly to the emerging areas. Romania has fully felt the effects in 2009, macroeconomic forecasts in 2007 proving its limits and requiring reconsideration.

Based on a number of considerations that failure to implement clear measures would have serious consequences for achieving the absorption of structural and cohesion funds, as well as national infrastructure development projects, and that immediate action failure would led to real difficulties in the optimal relationship between Romania's government and the European structures, in Romania was established European Affairs Ministry as a specialized body of the central public administration, with legal personality, subordinated to the Government. Together with the Ministry of Foreign Affairs it coordinates the overall management of European affairs in order to ensure the effective participation of Romania in the decision making process at EU level [7].

The European Affairs Ministry serves as Coordination of Structural Instruments Authority with responsibility for coordinating the preparation, development, and operation of harmonization of the legal, institutional, procedural and programmatic management of the structural instruments. Its field of activity is the management of the ensemble of European affairs, coordinating the formulation of policies and strategies in European affairs, including preparation of coherent and consistent position of Romania in EU structures.

In addition, in Romania, structural and cohesion funds is one of the main sources of investment in infrastructure and the establishment of this ministry has helped to increase the absorption of structural and cohesion funds, for sustained acceleration of this process and removal of any malfunction.

Consistency between the approved strategy and targets, relative to the current socio-economic
conditions is reflected in the operational programs. The only indicator to quantify the exact level of real absorption of structural and cohesion funds is the ratio of actual payments transferred to beneficiaries and allocation available for a certain period [3].

A priority for states' governments benefiting from structural instruments is improving the access and implementation system intended to accelerate the absorption of EU funds, to ensure a quick infusion of capital into the economy in order to reduce the effects of the economic crisis, to facilitate essential investments at national, regional and local level and to avoid an automatic desis of the amount allotted to the states [8]. For the next programming period 2014-2020 is important to increase the thematic concentration for pro-development areas in line with the objectives of economic growth and employment.

The management of Community funds must to consider three steps [9]:

1. **Programming (design)**, that appears as an input variable. Elements that define this stage create the conditions for effective and efficient management of the structural funds. Design capacity must be assessed by reference to the requirements arising from the regulations on the structural funds. These issues were initially provided in Regulations no. 1260/99 and 438/2001.

2. **Functioning** or the extent to which structural funds are managed effectively and efficiently. This phase could not be assessed in a candidate state, however, analyzes of the functioning of the pre-accession instruments (PHARE, ISPA, SAPARD,) provided some indications about future system operation.

3. **Performance**, i.e. the extent to which the Structural Funds have been managed effectively and efficiently. It is an output variable, which measures the results. Performance cannot be measured but ex-post at the end of the program period.

Measuring administrative capacity involves the evaluation of three elements: structure, human resources, systems and tools. [1]

- **Structure**, refers to the clear distribution of responsibilities and tasks of the institution or, rather, on the units and departments of these institutions. This distribution covers a range of tasks related to life-cycle phases of structural funds management, i.e. management, programming, implementation, monitoring and evaluation, and financial management and control. Given the stage Romania finds in terms of these phases, this paper aims to evaluate only the first three of them. Structure takes into account the supervisory or complementary bodies such as monitoring committees, audit, partnerships, etc.

- **Human resources** consider the capacity to breakdown the duties and responsibilities up to the job description, to estimate the number and qualifications of the personnel and conduct recruitment activities. This is because the timely provision and keeping experienced, qualified and motivated staff is one of the factors that determines the success of structural funds management.

- **Systems and tools** relate to the availability of methods, instructions, manuals, systems, procedures, forms, etc. In other words, this are help support that can enhance the effectiveness of system operation. They enable organizations to transform tacit and implicit knowledge (existing in staff qualifications) into explicit knowledge that can be shared within and outside the organization. The existence of systems and instruments reduces the vulnerability of institutions (for example, if staff departures) and contributes to their effective functioning.

Post-accession EU funds are managed in a specific institutional framework, legal regulated at EU acquis as Regulation. This implies a general and binding nature in all its items, with direct application in each member state fulfilling the eligibility criteria [10].

Specific legal framework for the structural and cohesion funds include procedural provisions applicable to all financial instruments irrespective of the specificity of each one. It thus provides a unified institutional administrative system for the overall management of structural and cohesion funds. [11]

**European funds management** means all the activities of programming, implementation, monitoring, reporting, evaluation, contracting, auditing, verification and technical and financial control, payment, certification, recovering amounts unduly paid, ensuring proper functioning of management and control systems and financial and accounting activities and specific coordination activities on pre-accession instruments, the structural funds and the cohesion fund.[12]

In terms of assessing the capacity of absorption and managing of Community funds, the European Commission has made a number of recommendations [13]:

- measures are needed in order to strengthen the administrative capacity across all main ministries and the other relevant bodies;
- the number of employees and the place of employment should be increased, in order to recover the backwardness;
- the cooperation between the central and local administration should be substantially strengthened;
- the co-financing mechanisms, especially at local level, need to be clarified and developed;
- for the programming activity, the partnership principle should be effectively implemented;
- the financial management and the control are still characterized by structural weaknesses and should be considerably strengthened in order to avoid the future irregularities.

3 Impact of intervention principles

In its quality of member state, Romania was obliged to develop an adequate juridical frame in the domain of attracting, managing and protecting the financial interest of the EU, by adopting some legal stipulations regarding the incriminating of the phenomenon of financial fraud [14] that harms the integrity of the Community budget. [15].

Adapting the legislation to the standards of the EU has been realized on the background of preparing Romania for a proper absorption of the Community funds, in the conditions in which a member state has received from the Communities’ general budget and also from the budgets it manages, non-refundable financial assistance through pre-adhering and post-adhering funds.

In their activities, the authorities with competence in absorption and managing European funds and the beneficiaries are obliged to elaborate and apply procedure of management and control that ensure the rightfulness in granting and utilizing these funds, also in the respecting of principles of good financial management, as defined in Community legislation. [16]

The public entities that have the quality of authorities with competences in managing European funds or that of beneficiary of the programs financed integrally or partially from European funds and/or national public funds have the liability to organize and exert internal control, preventing control, identifying and managing risk control and also exerting internal audit, as in agreement with the stipulation of national law in vigor. [17]

Like any area of public interest, ensuring the functionality and management of EU funds absorption is governed by a regulatory framework whose implementation requires continued compliance with the principles of intervention [18].

The first principle is related to ensuring being complementary, the consistency, the coordination and the compliance. Being Complementary and the consistency are the results of strategic guidelines for cohesion within the National Strategic Reference and operational programs. In terms of consistency, European Commission and member states are satisfied that funds interventions accompany the activities, policies and priorities of the European Union, that ensure of being complementary with other EU financial instruments [18].

Programming takes into account that the objectives are established in multiannual programming in several stages, which include identifying priorities, funding and management and control system.

Partnership designates obligation for each member state that the objectives of EU funds be followed in close cooperation between the European Commission and each member state.

The principle of territorial level of implementation of operational programs establishes that this is aspect is the responsibility of member states at the appropriate territorial level, in accordance with the institutional system and the limits imposed by the European legislator.

Proportional intervention envisages that financial and administrative resources used by the European Commission and the member states as regards the choice of indicators based on information on the priorities and specific objectives, evaluating the efficiency of funds, general principles of management and control systems, etc. are proportional to the total amount of an operational program related costs.

Shared management as a key intervention of European funds is that the implementation of the budget funds allocated from EU structural and cohesion financial interventions are carried out in the form of shared management between the member states and the Commission, with the technical assistance.

Additionality ensures that in terms of contribution, structural funds shall not replace public or similar structural expenditure in a member state. Providing this flexibility principle character is handled by the European Commission, which carries out in cooperation with each member state, an ex-post check of additionality.

Non-discrimination and equality between men and women is found as a rule of thumb in the intervention of structural and cohesion funds, the contracting parties are obliged to take appropriate steps to prevent any discrimination.
Sustainable development rounds the intervention principles, being pursued by the EU both internally and externally. Objectives related to EU funds are being pursued in the spirit and framework of sustainable development. [18]

Based on the inventory of these principles we can say that they have, directly and direct, practical implications. Interpreting all procedural acts performed in operations of absorption and control of EU funds must reflect the principles of intervention. Moreover, in case of disputes to be settled by the Court of Justice of the European Union, any action by national authorities must be addressed under the principles of intervention.

4 Conclusions
The administrative capacity of Community funds is still insufficient, due to significant and numerous weaknesses which must be tackled in the next period. However, the comparisons[1] with absorption capacity evaluation in other states, at similar moments in time raises additional concerns, given the weak performance of Romania.

The real objective is that Romania to be capable of absorbing as much as possible from the allocated EU funds. The institutional structure for the administration of structural instruments was defined and was approved by the European Commission. Generally speaking, we may conclude that the institutional structure is adequate, with all premises for a good management in place.

We are convinced that the urgent improvement and implementation of working procedures is essential for the effective operation of the absorption and management of Community funds. In addition, it can eliminate partially the effects of possible increased mobility of staff and can contribute directly to increasing the level of knowledge and professionalism of employees.

For structural and cohesion funds absorption would be possible direct allocation of new tasks set out in European legislation directly to existing structures dealing with the management of EU funds without need of creating new functional structures having no actual experience in the field and parallel in terms of the work until the completion of the implementation of projects financed from structural and cohesion funds for the period 2007-2013.

For Romania, the proper management of Community funds for future programming period 2014-2020 still involves a good administrative capacity, the existence of competent personnel at central and local administrative structures, the efficient cooperation with the private sector and other stakeholders (from the planning stage to the implementation and evaluation), the preparation of multi-annual programs on the use of funds, the use of on progress, but also the ex post evaluation and, not least, the ability to meet the additionality principle.

Therefore, during 2014-2020, Romania will have to consider issues such as stability and strengthening the legal and administrative framework of EU funds by providing:
• Romanian legislation is compatible with Community rules;
• Compatibility of financial and budgetary procedures and the principle of additionality (the ability to co-financing), improving financial control mechanism;
• Partnership principle: the foundations of a process of consultation of local authorities, economic and social partners, non-governmental organizations. [19]

At the initiative of the member state, the structural funds may finance the preparatory, management, monitoring, evaluation, information and control activities of operational programs and activities of strengthening the administrative capacity for implementation of structural funds.[20]

The prevention of the misuse of European funds, which may jeopardize the objectives of the Community budget, in particular: improving living conditions, promoting economic growth and creating jobs. This is confirmed especially in times of budgetary consolidation, fiscal responsibility and structural reforms on economic growth path.

We consider that our approach identified many of the problems could be overcome through the involvement of all relevant stakeholders at national, regional and local level from early-phase programming, so that the proposals in future framework documents and operational programs to better respond their needs, thus allowing a more important and clear contribution to achieving European targets.

References:


[17] Art. 4 of Governments Emergency Decree no.66/2011 regarding the prevention, detection and sanctioning of the irregularities found in obtaining and utilizing the European and/or their corresponding national public funds, published in Official Gazette of Romania, Part. I, no. 461/30 June 2011

