

Predisposing factors and barriers in the absorption of EU funds - conceptual and operational aspects

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Abstract:

This paper is based on direct research carried out in the territory of Trotus Valley in order to identify both the absorption capacity in the area, as well as contributing factors and barriers for this process. In fact, the need for the research came from the desire of knowledge of local realities of attracting European funds and to identify the factors that favored the successful completion of projects and the barriers that have led in many cases to abandon the process.

Key words:

pre-accession period, the post-accession EU funds absorption, the absorption capacity of EU funds

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Introduction

Assumption in assessing the need and opportunity of the absorption of EU funds at national, regional and local coordinates is the integration of Romania into the European Union. In this context, the importance of European funding programs revolves around alignment to European economic and social cohesion required obviously by the post-accession process and the alignment to the principles of construction of the single European market.

Romania's experience in attracting and use of structural instruments, both at national and regional level must be assessed in two stages: first we must mention the experience in the pre-accession through the operational programs like: Phare, ISPA and SAPARD, on the other hand, now we are in the process of obtaining post-accession related experience through operational programs under the Structural and Cohesion Funds.

Experience in pre-accession is undoubtedly a factor in the behavior of accessing Structural and Cohesion Funds related programs. However, steps taken by Romania, Bacău region respectively, in accessing and attracting pre-accession funds are only a starting point, not a milestone in itself. Moreover, funding instruments for pre-accession programs are different from those of the Structural and Cohesion Funds. For example, the implementation of PHARE and ISPA programs differs significantly from structural instruments. Some similarities are found in the SAPARD program management and FEADR, but the latter serves at present Common Agricultural Policy.

Pre-accession funds are only a benchmark due to the relatively high absorption in comparison with the corresponding post-accession funds. Thus, a brief analysis on the absorption of pre-accession EU funds in the 2000-2006 periods reveals that out of 5,679,000,000 euros allocated by these programs were contracted projects totaling Euro 5,110,000,000, which represents a degree of absorption of about 90%. Aggregate payments for these projects totaled 3,469,000,000 euros, showing an absorption rate of 70%.

These are some favorable results, although there were many obstacles in the absorption of EU pre-accession funding: inconsistency in funding allocation mechanisms (eg PHARE program has undergone many changes in the mentioned period) and relatively poor management; institutional fragility; delays and communication problems between institutions; bureaucracy; difficult and lengthy procedure for submission and approval of projects; low level of involvement of civil society.

On the other hand, absorption of post-accession structural funds reached in 2010, according to data provided by the Authority for Coordination of Structural Instruments (ACIS), the threshold of 15% of the allocation for the period 2007-2010¹.

Romanian state's ability to attract and benefit from post-accession technical and financial support will be felt over time and will be measured by the speed with which the Romanian economy will adapt and will operate according to the European system. Obviously, the ability to align to the European framework requests the development of tools in the analysis of Structural and Cohesion Funds and especially the establishment of a "culture of evaluation" in the sense of developing methods of evaluation and promotion of best practices between Member States.

The importance and opportunity of post-accession European funding programs, beyond interregional disparities between Member States of the European Union, must be assessed in the light of the beneficial effects resulting in economic and social areas. Whether we refer to programs that support economic development at the macroeconomic level, national and regional levels, whether we consider measures to promote development at the micro level, for operators in the various sectors, support from the European Union is clear, one of significant strategic importance.

The research conducted within Trotus Valley aimed, besides highlighting the absorption of European funds in the area, identifying contributing factors and barriers in the steps initiated by both public beneficiaries and the private ones. The need for research came from the desire of knowledge of local realities in attracting European funds, to identify factors that favored the successful completion of projects, barriers that have led in many cases to abandon the process. Moreover, the research results will be a real support for improving the methodology and tools to grant funds.

Research methodology

The decision problem that led to the implementation of research was to know the main elements of specificity of the absorption of EU funds for the private beneficiaries of Trotus Valley territory.

Purpose of the research was to study the particularities of the absorption of European funds within TROTUS VALLEY territory. In fact, we aimed: a better understanding of EU funds absorption issues at the local level; to identify the factors that favored launching the absorption of European funds of private beneficiaries; identifying failures during the development process of absorption of EU funds, identifying barriers and reasons which led to the abandonment of attracting funds. The research unit was established being the private beneficiaries of EU funds in Trotus Valley territory.

Stated objectives that aimed to identify contributing factors and barriers in the process of absorption of European funds were achieved through analysis of different legal organizational forms: individual, authorized individual, individual enterprise, family business, limited liability company, in the following fields of activity, according to CAEN: agriculture, beekeeping, manufacturing and livestock. The research carried out on the territory Trotus Valley have considered all forms of legal organization that developed / submitted at least one project under EU funds, both in the pre-accession and post-accession.

¹Authority for Coordination of Structural Instruments - ACIS, September 2010.

To identify investigated units were used last available official data provided by APDRP Bacau. This information was supplemented with data available at the site of Northeast Development Agency. Within the territory of Trotus Valley were submitted by 30 June 2012, a total of 178 projects by private beneficiaries. Distribution of projects submitted within Trotus Valley territory according to legal form is as follows: 13 individuals, 70 authorized individuals; 68 individual businesses, 10 family businesses, 17 limited liability companies. The distribution of the projects submitted within Trotus Valley by sector of activity is as follows: 119 in agriculture, 14 manufacturing, 4 buildings, 19 livestock, 18 beekeeping, 4 services.

The distribution of projects submitted within Trotus Valley on PNDR is as follows: 28 projects on 112 measure; 8 projects on 121 measure, 10 projects on 123 measure, 117 projects on 141 measure, 15 projects on 312 measure. This research is total quantitative one covering about 70% of private beneficiaries who have submitted at least one project to attract EU funds, either in the pre-accession or in the post-accession. Reporting unit was made up of the legal representative of the project developed / made to attract EU funds.

Regarding sample size, given the non-response rate of 30%, it was formed by 124 respondents from the private beneficiaries sectors and from the forms of legal organization mentioned.

The distribution of the observation unit, subordinated to the territory of Trotus Valley, reveals the following: Casin (20 beneficiaries), Urechești (16 beneficiaries), Gura Vaii (12 beneficiaries), Helegiu (12 beneficiaries), Soveja (11 beneficiaries) Manastirea Casin (9 beneficiaries), Tg Trotus (9 beneficiaries) Bârsănești (9 beneficiaries) Coțofănești (8 beneficiaries), Bucium (8 beneficiaries), Stefan cel Mare (7 beneficiaries) and Caciulati (3 beneficiaries).

Research results

The first part of the analysis of the absorption behavior within the territory Trotus Valley is related to identifying time of interest for the process. From this perspective, 70.97% of the surveyed units said that interest was manifested in the post-accession period absorption of EU funds, while only 6.45% of respondents indicated the pre-accession period. The difference of 22.58% was represented by units specifying that interest in EU funds absorption was manifested both in the pre-accession and post-accession periods. The distribution of research units by sector, depending on when the interest for the EU funds absorption came, shows the following (Figure 1):

- ✓ most units in agriculture (70.11%) and livestock (66.67%) mentioned as time for interest to the absorption of EU funds post-accession period;
- ✓ in construction, manufacturing and agricultural service, all surveyed units indicated that the time for interest to the absorption of EU funds was in post-accession period;
- ✓ in agriculture (22.99%), livestock (33.33%) and bees (30.77%), interest in EU funds absorption manifested with different weights, both in the post-accession and pre-accession period.

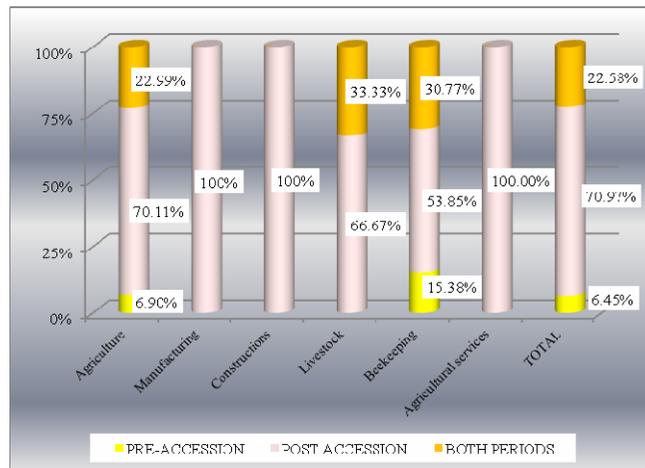


Figure 1 The distribution of the research units on time for interest to the absorption of European funds by sector

At the researched collectivity level, the distribution of units based on the number of implemented projects reveals that those which submitted one project are predominant (91.94%). Only 5.65% of the studied units proposed two projects, while 2.42% indicated more than 2 projects. Distribution of units by the sectors and by the number of projects reveals the following aspects:

- ✓ All units in manufacturing, construction, beekeeping and services submitted one project for accessing European funds;
- ✓ The agriculture subordinated units mentioned also submitting 2 projects (6.9%) and more than 2 projects (3.45%), while livestock subordinated units specified with a frequency of 8.33% submitting 2 projects.

Of particular importance in this analysis has been given to identify the current state of projects carried out in the Trotus Valley territory. Of all European projects submitted within the analyzed territory 66.42% are under implementation, 17.52% are finalized and 16.06% have been abandoned. It was also observed that only 2.19% of projects in the area are distributed for pre-accession period. A distribution of these stages by sector (Figure No. 2) reveals the following:

- ✓ most of the submitted projects subordinated to agriculture are found in the implementation phase (the post-accession funds) - 70%, followed by the abandoned ones (post-accession) - 15%;
- ✓ the units for manufacturing indicated with a frequency of 70% that the projects were abandoned (for the post-accession). Only 30% of units have specified the completion of projects in the post-accession.
- ✓ in construction and agriculture supply all investigated units mentioned project completion (for the post-accession);
- ✓ most of the units of livestock and beekeeping mentioned the existence of projects implementation for post-accession funds.

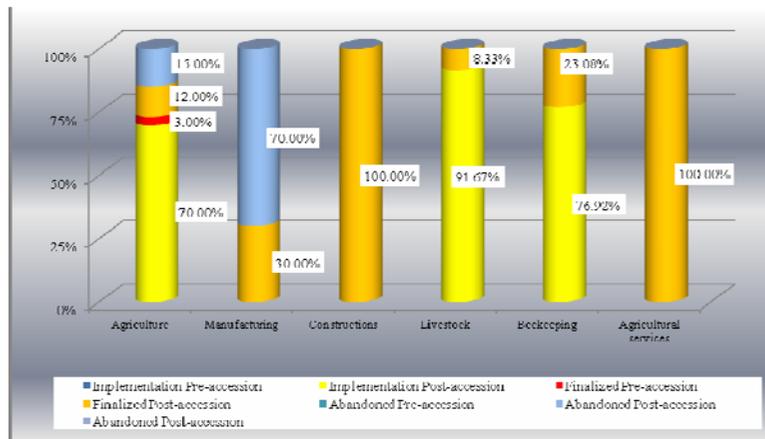


Figure 2 The distribution of the research units, according to the state of projects and by sector

For those research units that said they had abandoned the projects we aimed to identify the reasons that led to this behavior. Thus, as can be seen in Table 1, only 16.06% of the submitted projects were rejected / abandoned. The main reasons for dropping out, based on frequency, are the following: impossibility to obtain financing (8.03%) increased risk associated with hiring a credit in crisis period (4.38%), complicated procurement procedures (1.46%), hostile legislation (1.46%), increased risk associated with employing own resources (0.73%).

Table 1 Distribution of investigated units on grounds of abandonment

Abandon reasons	A	B	C	D	H	I	J
TOTAL	8.03%	4.38%	0.73%	1.46%	1.46%	0.00%	83.94%

Legend: A. impossibility to obtain financing; B. high risk associated with a loan commitment during the economic crisis; C. high risk in personal resources employment, D. complicated procurement procedures, E. difficulty in recovering of own funds due to delayed evaluation / contracting, F. unfavorable relationship with consulting firm, G. commitment of significant financial resources, to no avail, H. hostile legislation, I. closure of activity, J. other reasons

Distribution of these reasons by the activity sectors (Figure 3) reveals the following:

- ✓ in sectors such as construction, livestock, beekeeping and services the reasons of abandonment have not been mentioned;
- ✓ the main reason for subordinated agriculture units was the impossibility of obtaining financing (10%);
- ✓ the main reason for manufacturing units was the credit risk associated with employment loan during the crisis (50%), followed by impossibility to obtain financing (10%) and complicated procurement procedures (10%).

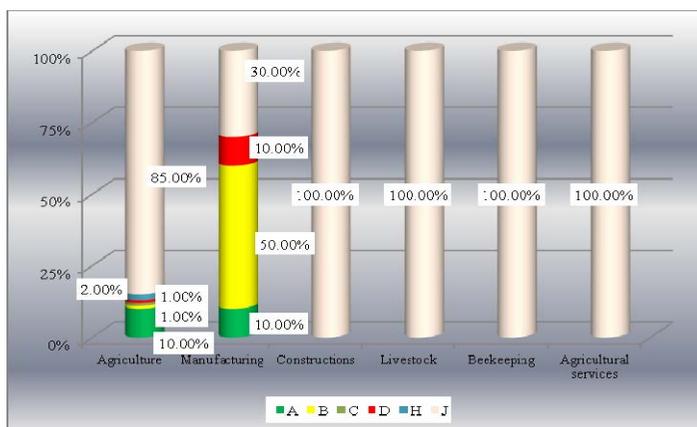


Figure 3 The distribution of research units, depending on the reasons which led to abandonment of projects and by sector

Legend: A. impossibility to obtain financing; B. high risk associated with a loan commitment during the economic crisis; C. high risk in personal resources employment, D. complicated procurement procedures, E. difficulty in recovering of own funds due to delayed evaluation / contracting, F. unfavorable relationship with consulting firm, G. commitment of significant financial resources, to no avail, H. hostile legislation, I. closure of activity, J. other reasons

The period for the documentation required for accessing European funds was another extremely important variable in the proposed research. Within the studied collectivity, most respondents mentioned a period of 1-3 months (48.39%) for preparing the documentation necessary to access European funds, followed by those who specified the range of 3-6 months (28.23%). The distribution of investigated units, depending on the time of documentation by sector (Figure 4) reveals the following:

- ✓ most of the organizations in agriculture and livestock indicated 1-3 months intervals (47.13% and 75%) and 3-6 months (33.33% and 16.67%) for preparing the documentation necessary to access European funds;
- ✓ in manufacturing, 70% of units have specified a period of 1 month to prepare documentation, the difference of 30% indicating a period of 1-3 months;
- ✓ in sectors such as construction and services was noted only between 1-3 months;
- ✓ in beekeeping, in addition to intervals of 1-3 months and 3-6 months, a higher percentage was obtained for the period over 12 months (8.33%).

It seems that the documentation period was considered by respondents to be a normal one, without being considered as a barrier to the absorption of EU funds. To more accurately identify potential barriers to the absorption of EU funds, the analysis focused on three areas: the documentation phase, the contracting phase and the implementation phase of EU funds projects.

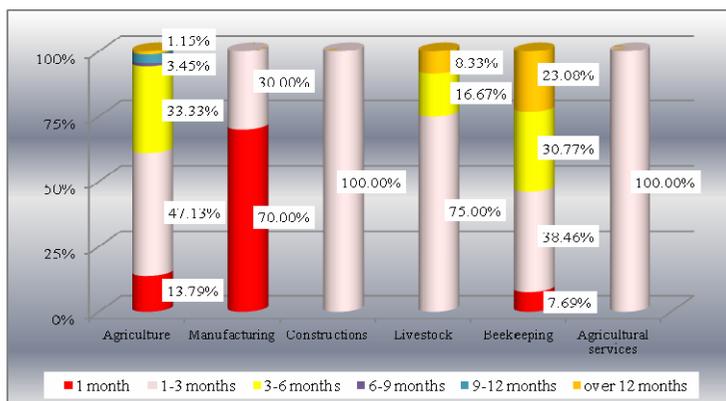


Figure 4 The distribution of research units, depending on the time for documentation development and by sector

The assessments for claims related to the stage of documentation necessary to access European funds reveals the following:

✓ within the investigated collectivity were considered to be relatively true the following statements:

- *the requirements of the Guidelines for Applicants are numerous and in many cases unnecessary;*
- *in most cases, the final form of the documentation is submitted online in the run-up of starting process. In this situation there is a risk of inability to meet the stipulated requirements in record time;*
- *it is very difficult to get credit to cover co-financing;*
- *the documentation required by banks for providing funds is very bushy;*
- *when hiring their own resources (own savings) the risk is very high, as a deterrent in making access to funds.*

✓ within the investigated collectivity were considered to be relatively untrue the following statements:

- *the relations with the selected project designer and consultant are often extremely difficult;*
- *consultant fails to fulfill its promises made at the moment of contact;*
- *the consultant knows in detail the measure within they want to apply a project;*
- *In 90% of cases the project is subject to failure due to the service provided by the project designer (for measures involving construction).*

The assessments for claims related to the contracting stage shows that within the collectivity were considered to be relatively true only two statements, namely:

- “When submitting the project for each applicant, at least one additional requirement or a change appears”;
- “When submitting the projects, given the limited time for online charging of the applications, local staff does not effectively manage waiting threads”.

The assessments for claims related to the implementation phase of the projects reveals that within studied collectivity were considered to be relatively true only three claims, namely:

- *“Own financial resources or obtained credit are very hard reimbursed, the beneficiary is obliged to pay interest (not deductible)”;*
- *“The documentation for reimbursement of invested amounts in the implementation phase is very bushy and rigid”;*
- *“The selection of suppliers is a cumbersome and lengthy process, which blocks the normal course of the project”.*

Conclusions

From those presented in this work it can be identified the barriers in the absorption of EU funds: impossibility to obtain financing, the increased risk associated with a loan commitment during the crisis, complicated procurement procedures; hostile legislation, the high risk associated with employing own resources; excessive bureaucracy in the three stages - making documentation, contracting the funding and implementation of the projects. The main predisposing factors identified in the conducted research were: some of the analyzed accessed measures did not involve co-financing (agriculture), favoring the absorption of European funds; informal interpersonal communication played a decisive role in the propagation effect of accessing European funds in the area.

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