European integration, financial resources and the absorption of European funds in Central and Eastern European Countries

Valentin NECULITA*, Daniela Ancața ŞARPE**, Mihaela NECULITA***

ABSTRACT
The regional integration has the purpose to enhance the income in the region, which may be achieved through getting higher economic results by using the production factors more efficiently, increasing their mobility and benefiting from the access to a comprehensive knowledge base. This paper aims to provide insights in European integration, financial resources and, absorption of European funds. The paper proposes an analysis of financial framework by means of data and statistics provided by European institution, national statistics institutions and international statistics institutions. The financial framework is a mechanism designed to ensure a strict budgetary discipline of the maximum spending cap for each major area of European Union budget. This mechanism is drawing on the basis of political and economic priorities. One of the main objectives should be the expenditure forecasting, annual budgets, so they be situated under overall cap, knowing that achieving long-term economic growth depends on the financial incentives that the European Union can sustain.

1. Introduction
Regarding European integration, there are many theories [Pollack, Mark, 2010] which attempt to explain the process and outcome of integration [Rosamond Ben, 2000] in Europe. They try to clarify how and why the European Union came about and how it is today. Some of the most dominant theories of European integration are neo-functionalism [Ernst Haas, 1958] with the concept of spillover. Firstly, functional spillover was used to explain the way in which integration in one policy area, creates pressure for integration in further areas. Secondly, political spillover was used to explain the importance of supranational and subnational actors in the integration process.

Intergovernmentalism [Alan Milward, 1994] emphasizes the role of the nation state in integration, and argues that the nation state is not becoming obsolete due to European integration. There were periods of radical change in the EU when the interests of the member states governments converge and they have shared goals, and periods of slower integration as when the governments’ preferences diverge and they cannot agree.

Liberal intergovernmentalism [Moravcsik Andrew, 1998] emphasises national governments as the key actors in the process of integration. However, it also incorporates the liberal model of preference formation, whereby national governments have a strong idea of what their preferences are and pursue them in bargaining with other member states. Liberal intergovernmentalists consider supranational institutions to be of limited importance in the integration process, in contrast to neo-functionalists.

New Institutionalism emphasises the importance of institutions in the process of European integration and has three key strands: rational choice, sociological and historical. Rational choice institutionalism emphasises the way in which actors pursue their individual preferences within the context of institutional rules. Sociological institutionalism sees institutions in a slightly different way, emphasising broader norms and general rules and the way in which these shape the identities and preferences of actors in the integration process. Historical institutionalism focuses on the effect of institutions over time, and how institutions can go on to constrain the actions of the actors who designed them.

Multi-level governance [Liesbet Hooghe and Gary Marks, 1996] argues that policy making and integration in the EU is much too complicated to be explained by static integration theories. MLG consist in the dispersion of authority across multiple levels of political governance. Over the last fifty years, authority and sovereignty has moved away from national governments in Europe, not just to the supranational level with the EU, but also to subnational levels such as regional assemblies and local authorities.

* *, ***, *** Dunarea de Jos University of Galati, Romania. E-mail addresses: vali_neculita@yahoo.com (V. Neculita), daniela.sarpe@ugal.ro (D. A. Sarpe), neculitam@yahoo.fr (M. Neculita)
Currently, the interdependence between countries is increasing with an unprecedented speed. The context in which countries, firms respectively, has changed considerably over the past 40-50 years, and they must change their behavior to survive and thrive in an unstable global and extremely competitive environment. It is therefore necessary to identify and understand the nature of the changes that have stimulated or even forced the market approaches. When a country's accession to the economic area is intended a through analysis should be accomplished to show that this action is lucrative as only some economic benefits are not enough [Michael Porter, 2001]

Is important to know how well countries manage their economic and human resources to increase their prosperity. The economic crises have made the world economy more fragmented, forcing companies to operate several parallel business models. Emerging economies are relying on domestic demand, national companies try to escape from the recession, and the developed economies are turning to re-industrialization. In all cases, economic nationalism and the protectionism could return.

This paper aims to provide insights in European integration, financial resources and, absorption of European funds. The paper proposes an analysis of financial framework by means of data and statistics provided by European institution, national statistics institutions and international statistics institutions.

2. European financial resources

With a view to improving the budgetary procedure, starting from 1988 have been set up multiannual financial frameworks which establish the global and annual limits of the main categories of the Union budget expenditures. These financial frameworks spread over a period of seven years. Until this date there have been four multiannual financial frameworks.

- 1993-1999 - Delors II Action Program
- 2000-2006 - Agenda 2000 Action Program
- 2007-2013 – Action Program

The multiannual financial framework is a mechanism created for ensuring a strict budgetary discipline, mapping out on the basis of certain political and economic priorities the maximum spending ceilings for each major area of the EU budget.

Over the period 2007-2013, the European Union countries have decided to dedicate also a considerable part of their common efforts to the EU budget for a higher economic growth and in order to create jobs. The sustainable development has become one of the main priorities of the European Union. The EU economy had to be more competitive and the less flourishing regions had to recover the disparities compared to the others. Thus, the EU budget for 2007 - 2013 was structured on six main categories of spending, budget lines and 31 distinct policy areas.

The European financial framework is structured on six areas and three objectives: sustainable development, conservation and management of natural resources, citizenship, freedom, security and justice, the EU as a global actor, administration and compensations.

The EU annual budget represents around 1% of the Union domestic product, the equivalent of nearly EUR 244 per EU citizen. This money is used with the aim of improving the everyday lives of the inhabitants.

The budget revenues consist of traditional own resources (TOR), which contributes to about 14%, value added tax(VAT)-based resources represent 11%, the resource based on Gross National Income (GNI) has the highest weight, of 74% and the other income group which represents about 1% of the budget.

![Figure 1. European objectives](http://eufinantare.info/politica-coeziune.html)

<table>
<thead>
<tr>
<th>2007 – 2013</th>
<th>3 financial instruments</th>
<th>Cohesion funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 1</td>
<td>Convergence</td>
<td>ERDF</td>
</tr>
<tr>
<td>Objective 2</td>
<td>Regional competitiveness</td>
<td>ERDF</td>
</tr>
<tr>
<td>Objective 3</td>
<td>European territorial cooperation</td>
<td>ERDF</td>
</tr>
</tbody>
</table>

Source: http://eufinantare.info/politica-coeziune.html

Member States contribute to the budget with amounts approximately proportional to their economic prosperity. Nevertheless, Germany, the Netherlands, Austria, Sweden and the United Kingdom benefit from certain adjustments ("corrections") when calculating the contributions, for the purpose of reducing the net contributions to the budget, considered to be excessive.
On the other hand, the EU funds are assigned to the beneficiaries in the Member States and third countries in line with the priorities set by the Union. While all Member States benefit from funds allocated from the EU budget, the less prosperous Member States proportionately receive more funds than wealthier states as a result of the solidarity underlying the EU programs, including within the cohesion policy background.

The total EU revenues in 2013 amount about 132 billion.

As regards the spending, the EU budget is structured on six major categories of expenditure, budget lines and 31 distinct policy areas. The budget finances actions and projects considered as priorities in Europe at some point by the Member States.

Three funds are employed during 2007 – 2013:
- The European Regional Development Fund (ERDF) for investments with a view to reducing the regional disparities in the Union, supports programs for regional development, economic growth, competition and territorial cooperation through financing research, innovation, environmental protection, infrastructure and risk prevention.
- The European Social Fund (ESF) operates in line with the European Employment Strategy (EES) and is based on increasing the economic adaptability, rate of employment, equal opportunities and social inclusion.
- The Cohesion Fund for Protection of Environment and trans-European networks and applicable to the Member States with a gross domestic product of less than 90% of the Community average, covering the states of Eastern Europe, Greece and Portugal.

<table>
<thead>
<tr>
<th>Table 1. UE expenditures for 2007-2013</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013*</th>
<th>TOTAL</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sustainable growth</td>
<td>42456</td>
<td>43782</td>
<td>42426</td>
<td>46491</td>
<td>52164</td>
<td>60287</td>
<td>59085</td>
<td>346691</td>
<td>39,89</td>
</tr>
<tr>
<td>2. Preservation and management of natural resources</td>
<td>53854</td>
<td>52094</td>
<td>50626</td>
<td>55907</td>
<td>55869</td>
<td>58045</td>
<td>57484</td>
<td>383879</td>
<td>44,17</td>
</tr>
<tr>
<td>3. Citizens, freedom, security, justice</td>
<td>980</td>
<td>1239</td>
<td>1908</td>
<td>1289</td>
<td>1712</td>
<td>2182</td>
<td>1515</td>
<td>10825</td>
<td>1,25</td>
</tr>
<tr>
<td>4. UE as a global partner</td>
<td>1452</td>
<td>1147</td>
<td>944</td>
<td>464</td>
<td>189</td>
<td>6966</td>
<td>6323</td>
<td>17485</td>
<td>2,01</td>
</tr>
<tr>
<td>5. Administration</td>
<td>6112</td>
<td>6493</td>
<td>6708</td>
<td>7186</td>
<td>7403</td>
<td>8278</td>
<td>8430</td>
<td>50610</td>
<td>5,82</td>
</tr>
<tr>
<td>6. Compensation</td>
<td>445</td>
<td>207</td>
<td>209</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>861</td>
<td>861</td>
<td>0,10</td>
</tr>
<tr>
<td>TOTAL UE 27 EXPENDITURES</td>
<td>105299</td>
<td>104962</td>
<td>102821</td>
<td>111337</td>
<td>117337</td>
<td>135758</td>
<td>132837</td>
<td>810351</td>
<td>93,24</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>8654</td>
<td>11582</td>
<td>15540</td>
<td>10893</td>
<td>12058</td>
<td>0</td>
<td>0</td>
<td>58727</td>
<td>6,76</td>
</tr>
<tr>
<td>TOTAL UE EXPENDITURES</td>
<td>113953</td>
<td>116544</td>
<td>118361</td>
<td>122230</td>
<td>129395</td>
<td>135758</td>
<td>132837</td>
<td>869078</td>
<td></td>
</tr>
</tbody>
</table>

Source: http://ec.europa.eu/budget/figures/interactive/index_en.cfm

There are areas where the EU countries have decided not to act upon the regional level. The national systems of social security, pension, health or education are financed by the national, regional or local governments. Moreover, the subsidiary principle ensures that the Union intervenes only if and to the extent
that the action objectives cannot be satisfactorily achieved by the Member States at the central, regional and local level, but may be better reached at the Union level.

The European expenses involve providing the necessary emergency assistance following a natural disaster. For others, it represents long-term assistance for ensuring the prosperity, stability and security.

The expenses for a more competitive economy need larger investments in research and education, extended facilities for transport and energy and better working conditions, all at the same time.

The achievement of a long-term growth also depends on the encouragement and increase of the EU’s growth potential. This priority, called "cohesion" requires the provision of assistance especially to the less advantaged regions, for transforming their economy so as to face the global competition. The innovation and knowledge-based economy provide unsurpassed opportunities for stimulating the growth in these regions. The Union's endeavors to obtain cohesion focuses on developing the facilities and assisting the regions as concerns the workforce training and adopting the latest production technologies.

3. European financial resources 2014-2020

The financial framework projection for the period 2014-2020 is structured on five sections, as follows:

- Smart and inclusive growth
- Sustainable growth
- Europe within the world
- Administration
- Security and Citizenship

At the beginning of each financial year, the Commission performs a technical adjustment of the financial framework for the following year. This is done for 2 reasons:

- the financial framework being expressed in constant prices, it must be adjusted each year for taking into consideration the inflation, so as each heading of expenses to relate to the same initial purchasing power
- the foreseen payments ceiling is expressed as a percentage of GNI (GNP) and has to be updated in order to take into account the actual economic activity, this has to be always below the own resources ceiling. The margin between the envisaged payments ceiling and own resources ceiling is also expressed in % of GNI (GNP) and is updated during technical adjustment.

By adjustment, the Commission may verify whether the own resources available value is enough to cover the total of the foreseen payments.

Figure 3. European Commission regarding multiannual financial framework 2014-2020

4. European Funds Absorption in Central and Eastern European Countries

In the period 2007-2013 EUR 209.1 billion, including national public contribution could be spent on the improvement of economic and social policy. The budgets have been set according to different considerations among Member States through their National Strategic Regional Framework Programmes.

Out of the total allocation, the beneficiaries in the 10 CEE have been committed EUR 139.9 billion, which is the two-thirds of the total available budget.

Regarding payments, by the end of 2011 more than 43% of the contracted grants 60.8 billion EUR were distributed to the beneficiaries. Between these countries, top performers are Estonia, Latvia, above average performers are Bulgaria, Lithuania, Czech Republic and below average performers are Slovakia,
Slovenia, Hungary, Poland and Romania.

The problems in using the funds in general and the funds for infrastructural, environmental, e-administration and R&D may result from poor feasibility study development, limited knowledge's about how these funds may be used and poor project management skills and poor practice.

During 2007-1013, 139.9 billion EUR worth of grants have been granted by the 10 Central and Easter European Countries. This amount is 67% of the total available budget allocated for 2007-2013.

**Figure 4. Available budget 2007-2013**


The majority of grants, 102.24 billion EUR, 73% of total contracted grants, have been contracted by transport, human resources, economic development and environment related projects.

Regarding payment ratio, Bulgaria has 16%, Czech Republic 39%, Hungary 29%, Poland 28%, Romania 14%, Slovakia 28% and Slovenia 38%.

**Figure 5. Absorption of European funds**

![Absorption of European funds](http://ec.europa.eu/budget/library/biblio/publications)

5. Conclusions

The European Union has to outrun the current crisis and decrease the unemployment and poverty in all Member States. This is the reason why the European Council has adopted the Europe 2020 strategy. For Europe to succeed, it is necessary that all European, national, regional and local actors accomplish their role. The cohesion policy shall continue to have a crucial role for ensuring a smart, sustainable and inclusive growth, at the same time forwarding the harmonious development of the Union and its regions through lowering the regional disparities.

The cohesion policy has created new jobs, enhanced the human capital, led to the construction of facilities and improved the environmental protection, particularly in less developed regions. Undoubtedly, in the absence of cohesion policy, the disparities would be larger [Rys V, 2001]. Nevertheless, the persistent social effects of the crisis, the innovation request determined by the build-up of global challenges and the need to make best use of each euro in public spending make necessary the carrying out of a policy reform.

Attracting and absorbing European funds entail an increase in consumption, trading activities, the economy as a whole. There is much talk about the European funds absorption and percentage drawn. The main problem is the use as efficient as possible of the Community funds in relation to the specific needs of the countries and citizens.
The Operational Programs (OPS) represent the main instrument of the priorities management as concerns the investments, but they also must be accompanied by accurate and measurable objectives which should contribute to reaching the national objectives set within the strategy Europe 2020.

An efficient use of the structural funds is generally conditioned by the quality of governance and, in particular, by the public administration institutions. One of the reasons slowing down the disparities decrease and convergence achievement is the inefficient use of structural funds by the beneficiary countries, through using untrained staff within the directly involved public institutions, EU funding in areas with low economic impact, using inadequate government policies.

There are huge inequalities between the candidate countries and current Member States regarding the income per capita and facilities [Page W, 2005], which might lead to a major reallocation of the structural funds. Such inequalities could entail a massive immigration or relocation of labor-intensive industries. Redirecting resources to the zones where the candidate countries have a comparative advantage may be a method through which the necessary resources could be found and enhanced even during the times of recession.

A new approach should be focused on outcomes, quantification of the potential effects of developing various forms of investment (facilities, research-development, human capital accumulation), maximizing investment performance in each region, launches competition through open projects, countries and regions should focus on a smaller number of priorities, rigorous evaluation methods, evaluation of impact and structural instruments must be focused on minimizing the effects of the financial crisis.

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