

## MEANS OF IMPROVING THE ABSORPTION OF EUROPEAN FUNDS IN ROMANIA

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### ABSTRACT

*The reimbursement period has a direct influence on the absorption rate of European funds and on the implementation of projects. Any delay in the reimbursement process can determine the appearance of problems, discontinuities in the implementation of projects and threaten their success.*

*Analyzing the reimbursement period is important considering the negative influence that it can have on projects financed by the European Union and their impact. Considering this factor as a possible risk, analyzing and monitoring it since the planning phase of the project can reduce the negative effects the delays in the reimbursement process have on the implementation of the project. Our article focuses on analyzing the reimbursement period, as a factor that can encourage the absorption of European funds.*

**KEYWORDS:** *project, reimbursement, factor, Operational Programme*

**JEL CLASSIFICATION:** *M00, O22*

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### 1. INTRODUCTION

Projects can be defined as tasks with special characteristics: "A project is a temporary endeavor undertaken to create a unique product, service, or result. The temporary nature of projects indicates a definitive beginning and end" (PMI, 2008, p. 5).

Some authors also define projects as temporary organizations and social systems: A project is a temporary and transient organization surrounded by inherent uncertainty (Turner and Muller, 2003). A project can be defined as "a temporary organization of a project-oriented organization for the performance of a relatively unique, short to medium term, strategically important business process of medium or large complexity" (Gareis, 2005, p. 41).

A particular case of projects are the projects financed by the European Union. They support European policies in achieving their goals, being the means by which the European funds allocated to the member states can be accessed. These projects are common at European level, being different from other types of projects, and having special characteristics.

According to Luhmann (1995), a region is a social system composed of society, organizations and the interactions between them. In these circumstances, projects financed by the European Union can contribute to the development of regions through positive effects on organizations and society.

In cases of delayed reimbursements, beneficiaries have to support projects from their own funds, with the risk of delays in respecting the schedule of activities and the possibility of cost incensement if using bank credit to cover cash deficit is necessary.

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On the other hand, if the time required for the reimbursement of eligible expenses is short, the attraction of European funds can be encouraged.

Given the importance of this factor, we analyze in this article the reimbursements period for the Operational Programmes for which data is centralized in the Unique System of Information Management (SMIS).

## 2. METHODOLOGY

The Unique System of Information Management (SMIS) provides a database that contains information on the contracted projects and the status of reimbursement requests. The information in this database is completed and updated by the institutions responsible for implementing European projects at the level of each Operational Programme.

Based on the data published in SMIS, we analyze:

- The waiting time for required reimbursements. We define the waiting time as the sum between the duration of the authorization period of reimbursement requests and the payment duration of reimbursements. In other words, the waiting time is the number of days between the registration date of the reimbursement request and the date of the payment. We present the minimum, average and maximum waiting time for the analyzed reimbursement requests, depending on the Operational Programme through which projects are financed.
- The values requested through reimbursement requests and the reimbursed values. In the SMIS data base there are three variable referring to the values of reimbursements:
  - the eligible value – the panned value, corresponding to the budget annexed to the financing contract;
  - the authorized value – represents the real value, according to contracts and invoices emitted in the period of time the reimbursement request refers to;
  - the reimbursed values – represents the paid amount and is calculated as the minimum between the eligible value and the authorized value. Frequently the reimbursed value is diminished after verifying the reimbursement request, if there are expenses that are considered not eligible or if penalties for nonobservance of the acquisitions procedures are applied.

The reimbursement percentage of the requested values, as a ratio between the reimbursed value and the authorized value.

After the data analysis, we applied statistical tests to verify the following hypothesis:

*Hypothesis 1:* The authorized value has influence on the authorization period of the reimbursement requests.

*Hypothesis 2:* The length of the authorization period for reimbursement requests is influenced by the reimbursement percentage of the requested values.

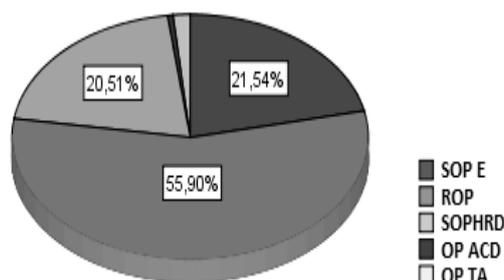
*Hypothesis 3:* The length of the authorization period of reimbursement requests is influenced by the Operational Programme through which projects are financed.

The analysis is made for the Northwest region. We chose the Northwest region for our study considering the development potential of the region and the generalization possibility of the study. According to the data registered in the Unique System of Information Management (SMIS) about the number of projects financed by the European Union contracted in the period 2007 – 2012, the Northwest region is ranked on an average level compared to the other regions, having a positive influence on the generalization possibility of the study.

All the reimbursement requests, corresponding to the Northwest region, for which data was introduced in SMIS until the beginning of August 2012, were analyzed: 195 reimbursement requests registered in the period January 2012 – July 2012 for projects financed thorough different Operational Programmes.

### 3. DATA ANALYSIS AND RESULTS INTERPRETATION

Analyzing the reimbursement request, depending on the Operational Programme through which the project is financed, we can observe that from the 195 reimbursement requests, 55,90% are financed through the Regional Operational Programme (ROP), 21,54% through the Sectoral Operational Programme Environment (SOP E), 20,51% through the Sectoral Operational Programme Human Resources Development (SOP HRD), 0,5% through the Operational Programme Administrative Capacity Development (OP ACD) and 1,5% through the Operational Programme Technical Assistance (OP TA).



**Figure 1. The analyzed reimbursement requests, depending on OP**

Source: Authors' contribution

For the 195 analyzed reimbursement requests, the minimum authorization period is 4 days, the maximum is 127 and the average is 50 days. The waiting time between the authorization of the request and the payment is much shorter, between 0 days (when the payment takes place in the same day as the authorization) and 27 days (Table 1).

**Table 1. Waiting period for receiving reimbursements (days)**

#### Descriptive statistics

	N	Minimum	Maximum	Average
Authorization period	195	4	127	50,06
Payment period	155	0	27	5,12
Waiting period	155	14	133	60,77
Valid N	155			

The average payment period is 5 days and it was calculated for 155 reimbursement requests because in the case of projects financed through SOP HRD there is no information in SMIS regarding the payment of the reimbursements, in the analyzed period not being made payments for these projects. The average waiting period for the 155 requests for which the analyzed data is complete, is 60 days. In the following table (Table 2) we present the waiting period for receiving reimbursements, for the operational programmes ROP, SOP E and SOP HRD, being the programmes with the highest number of reimbursement requests registered in SMIS.

**Table 2. Waiting period for receiving reimbursements, depending on OP (days)**

OP	Authorization period			Payment period			Waiting period		
	Min	Max	Avg.	Min	Max	Avg.	Min	Max	Avg.
ROP	27	127	62,30	1	20	4,58	30	133	66,89
SOP E	16	89	39,26	0	27	6,71	16	91	46,02
SOP HRD	4	77	28,48	-	-	-	-	-	-

In average, the highest waiting period for receiving reimbursements is for projects financed through ROP.

The authorization period has the most important influence on the waiting period. The reimbursements requests are authorized, in average, in 62 days for projects financed through ROP, in 39 days for projects financed through SOP E, and in 28 days for projects financed through SOP HRD.

In the next table (Table 3), we analyze the values of the reimbursements requests for the studied projects.

**Table 3. Values of reimbursements (lei)**  
**Descriptive statistics**

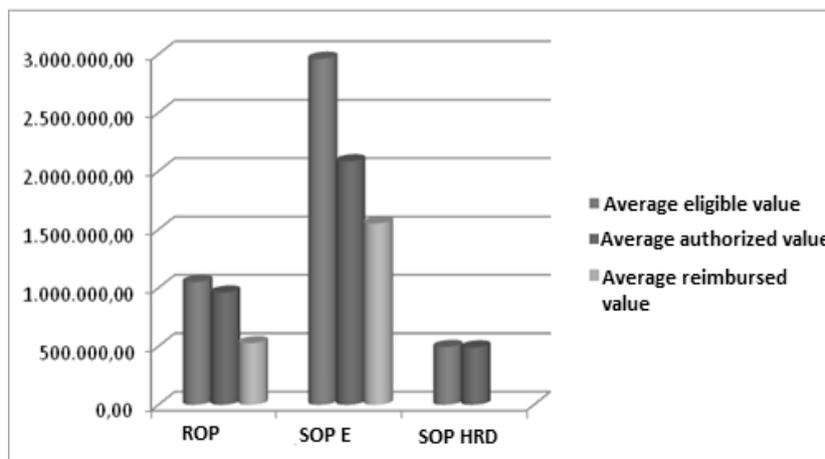
	N	Minimum	Maximum	Average
Eligible values	195	549,49	20.363.755,95	1.330.115,22
Authorized value	195	549,49	16.346.923,08	1.088.709,55
Reimbursed value	155	457,72	10.205.848,69	794.609,89
Valid N	155			

Source: Authors' contribution

It can be observed that the average reimbursed value is lower than the average requested value through the reimbursement request (the authorized value), which is also lower than the average forecasted value of the eligible expenses, included in the project's budget, annexed to the financing contract (the eligible value).

Depending on the Programme, it can be observed that the highest average values are in the case of SOP E. In the SOP HRD case, the average eligible value of reimbursements is very close to the average authorized value. This can mean that for projects financed through this Programme the budget was made based on real data and in general, in the implementation phase of the projects, the budgetary forecasts are respected. Specific to the SOP HRD Programme is the high percentage of expenses with human resources, these being easier to forecast and respect in the implementation phase of projects.

On the other hand, for SOP E, the average eligible value is much higher than the average authorized value. The cause can be either a less realistic forecast of the budget, or a better negotiation of contracts in the implementation phase of projects.



**Figure 2. The average value of reimbursements, depending on OP (lei)**

Source: Authors' contribution

The reimbursement percentage of expenses, or the report between the authorized value and the reimbursed one, has values between minimum 9% and maximum 100% when the reimbursed value is the same as the requested value. The average reimbursement percentage of expenses is 69,34% for the analyzed reimbursement requests. The percentage can be improved by avoiding penalties due to the failure to comply the acquisitions procedures. Hiring in the project implementation team an acquisition expert might contribute to improving the reimbursement percentage of expenses.

**Table 4. The average reimbursement percentage of expenses**

Descriptive statistics				
	N	Minimum	Maximum	Average
Percent reimbursement exp.	155	,09	1,00	,6934
Valid N	155			

Source: Authors' contribution

We present below the testing of the hypothesis and the obtained results:

**Hypothesis 1** – The authorized value has influence on the authorization period of the reimbursement requests.

For testing this relation we used the ANOVA test for regression. The table below (Table 5) shows the results of analyzing the variance of the dependent variable under the influence of the regression and the residual factor. The dependent variable in this case is the duration of the authorization, analyzed in relation to the influencing factor, the authorized value of the reimbursement request.

**Table 5. Testing the connection between the authorization duration and the authorized value**  
ANOVA<sup>b</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	355,315	1	355,315	,625	,430 <sup>a</sup>
Residual	109685,946	193	568,321		
Total	110041,262	194			

a. Predictors: (Constant), authorized value, b. Dependent Variable: authorization duration

Source: Authors' contribution

The value of Sig = 0,430 is higher than 0,05. So, we can state that there is no relevant connection between the two analyzed variables, between the length of the authorization period of the request and the authorized value. The hypothesis 1 is not confirmed.

**Hypothesis 2** - The length of the authorization period for reimbursement requests is influenced by the reimbursement percentage of the requested values.

We used again the Regression ANOVA test, to analyze the connection between the variables. The dependent variable is the authorization period, and the influencing factor is the reimbursement percentage of expenses requested through the reimbursement request.

**Table 6. Testing the connection between the authorization period and the reimbursement percentage of expense**

**ANOVA<sup>b</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	3380,266	1	3380,266	7,108	,008 <sup>a</sup>
Residual	72757,772	153	475,541		
Total	76138,039	154			

a. Predictors: (Constant), reimbursement percentage of expenses

b. Dependent Variable: authorization period

Source: Authors' contribution

The value of Sig = 0,008 is smaller than 0,01. We can state with a probability of 99% that between the two variables is a connection, in other words the length of the authorization period of the reimbursement request is influenced by the reimbursement percentage of the requested values. The hypothesis 2 is confirmed.

**Hypothesis 3** - The length of the authorization period of reimbursement requests is influenced by the Operational Programme through which projects are financed.

In order to test this hypothesis we applied the test One-Way ANOVA, where the dependant variable is the authorization period and the independent variable is the Operational Programme in which the reimbursement request is included.

**Table 7. Testing the connection between the authorization period and the OP**

**ANOVA**

authorization period

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	40389,492	4	10097,373	27,544	,000
Within Groups	69651,770	190	366,588		
Total	110041,262	194			

Source: Authors' contribution

The value Sig = 0,000 is smaller than 0,01. We can state with a probability of 99% that there is a connection between the two variables, that the length of the authorization period of the request is influenced by the Operational Programme through which the project is financed. The hypothesis 3 is confirmed.

#### 4. CONCLUSIONS

Projects financed by the European Union generate effects on organizations that implement them, on stakeholders and on the regions in which they are implemented. Through these projects the development of the region and the achievement of the European objective - sustainable development is wanted.

We consider the topic of the research presented in this article of great interest, given the large number of investments initiated through projects at European Union level.

Even though in 2013 the current stage of development at national level will end, research results could contribute to improving the management of future projects and programs, in the following stages of development.

In conclusion, the waiting time of expenses reimbursement depends on the reimbursement percentage of expenses and on the Operational Programme. Reducing the duration of the reimbursement period would encourage and facilitate the implementation of projects financed by the European Union. We consider that this can be achieved through:

- a better collaboration between institutions responsible of OP's management and the financing beneficiaries;
- good knowledge of the acquisitions procedures and their correct application.

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