

Analysis of the Contracting Process Specific to the National Rural Development Program (NRDP) 2020 Operational Program

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Abstract

The article analyzes the characteristics of the contracting process at the National Rural Development program (NRDP) 2020 level and the influence that the endogenous variables specific to the contracting process have on the number of projects contracted. The existence of an efficient contracting process is a first step in the generation of absorption so that its analysis provides an image on the future absorption. Within the analysis, variables such as the number of submitted projects, the number of selected projects and the number of cancelled projects is integrated, these being independent variables within the multiple linear regression used within the article. The article proves the existence of a strong positive connection, the influence factor varying according to the variable.

Keywords: EU funds; NRDP; current absorption; effective absorption; projects.

JEL Classification: M20, M48, M49

Introduction

The Common Agricultural Policy (CAP) is one of the most important policies at the European Union level but also one of the most debated policies, given its importance. It has undergone a series of transformations over the years. From a policy whose main objective was to ensure food security in the period immediately following the war or the competitiveness of the agricultural sector, after 2000 the CAP addresses new elements such as the market orientation of agriculture or rural development. The reforms carried out at the level of the CAP have passed over time from the subsidization of the market to the subsidization of the producers and nowadays the CAP addresses the problems of the diversity of the rural environment, the protection of the environment or one of the climatic changes. Now the CAP integrates two major pillars, namely direct payments and market interventions, as well as the modernization of villages, increasing the competitiveness of agriculture, diversifying the rural economy, protecting the environment and the rural landscape. Regardless of whether we refer to pillar 1 or pillar 2, the CAP has in the centre of construction the agricultural sector, this situation being in line with the development theories integrated into the strategic and programmatic framework that regulates the CAP. The specific requirements of agriculture have increased significantly in the last 30 years so that it is not only responsible for ensuring food but also reducing poverty, protecting the rural landscape or the environment, the responsibility of agriculture is to transform the rural environment.

However, the development of new technologies has affected the importance of agriculture in the context of rural development, the rural-urban links or the territoriality of the production flows becoming increasingly important elements.

The importance of the CAP is given by the needs addressed but also by the amounts that this policy benefits. The CAP is among the European policies that benefit from significant financial allocations. The Union budget for 2019 provides a total of 161,7 billion euro in commitment appropriations. Direct payments represent 25% of loans (40,5 billion euros), rural development measures represent 9,1% (14,7 billion euro) and other expenses 3,2%. In total, for the CAP, in 2019, 36,1% of the Union budget is allocated (58,4 billion euro) (www.europarl.europa.eu). The problem with the existence of consistent amounts at the level of a policy is that, although we are talking about a European Union, the immediate tendency is for the states to get involved in attracting as many resources for themselves, especially since we are talking about an area as sensitive as agriculture. CAP invests in Romania an approximate amount of 20 billion euro, the direct payments being about 11,6 billion euro during the programming period 2014 - 2020. The situation of the Romanian rural environment motivated the Romanian institutions to make efforts to attract the largest amounts for rural development, the need for investments being a major one. CAP finances in Romania, in addition to the direct payments representing pillar 1 of the CAP the National Plan for Rural Development. This is the pillar 2 of the CAP, an important intervention instrument, given that it was the first integrated financing instrument for the Romanian rural area. The amounts are foreseen for National Rural Development Program (NRDP), during the programming period 2014 - 2020, according to the operational program approved, are 8.127.996.402 euro, representing the contribution of the European Commission (NRDP 2014 – 2020, 2014). Romania benefits from the entire set of tools necessary to ensure an efficient investment process for the rural environment, referring here to both a set of needs organized programmatically and strategically but also to the necessary financial resources.

Literature Review

The strategic and programmatic framework at the level of the CAP is a dynamic one, being closely linked conceptually to the principles that were the basis of this policy. The evolution of the CAP has been transferred specifically to the beneficiaries through this strategic and programmatic framework, this mainly targeting agriculture as well as the role of this sector in the context of rural economic and social development. However, the CAP is a policy strongly criticized at the level of the European Union, precisely by the states that contribute to its achievement. The transformation of the agricultural sector into a multifunctional sector has generated several criticisms from some analysts. The European farmers may be considered disadvantaged compared to their international competitors because they must comply with conditions related to compliance, environment, thus facing higher production costs (Dewbre & al., 2001). The CAP is considered by some analysts to be built to meet the needs of the older states in the European Union, practically sacrificing the needs of the new Member States, disadvantaging them. (Gorton & al, 2009). Recent analyzes (Kyed & al, 2012; Henrik & al, 2015) have shown that any significant reduction of agricultural activities will have a direct effect on the economic growth, implicitly will generate job reductions both in the agricultural sector and in adjacent sectors, such as the food sector. Also, direct payments were associated with generating a negative impact at the territorial level, the effect being generated by the fact that they were granted based on historical quotas. This approach favoured the regions where the agricultural sector was more developed, so the whole economic environment was considered to be developed (Espon, 2004). Some critics of the effectiveness of the CAP believe that this remains an insufficiently targeted policy to provide an effective response to the unprecedented challenges facing the EU agricultural sector (Brunner & Huyton, 2008).

The CAP is, at the same time, a policy that is incapable of meeting the diversity of needs found at the level of the Member States, the criticisms of this policy are proof in this regard. Against the background of criticisms concerning the strategic and programmatic framework, we cannot speak of an administration system that is unanimously accepted because it derives from the strategic and programmatic framework agreed at the level of a programming period. The problems of the absorption of European funds and the impact of European funds on an economic and social level are some that do not find a clear answer in the specialized literature. The existence of resources inherently justifies the problem of the absorption of European funds because although there are financial resources, they have been partially used by the Member States. The reason for this situation derives from the procedural rigour that an entity accessing European funds must meet, which are often very difficult to fulfil. The absorption of European funds is a constant concern for the specialized literature, this one aiming in particular to identify the mix of variables that ensure the absorption of European funds, a situation that could guarantee the success of European policies. Achieving a 100% spending level seems to be a great issue for many countries. There is a threat of "underspending" expanding throughout the Member States, according to which available and needed funds are not being fully used. This situation is commonly referred to as "a deficiency of absorption capacity" (Horvat & Maier, 2004). An "absorption bottleneck" constitutes a major issue that concerns both the European officials and the National governments. It can be referred to, according to Kálmán (2002), as a situation in which any recipient region fails to achieve 100% of its target value, which means that the administrative capacity of a country or region to deliver and implement Operational Programs is not perfect.

The absorption of the European funds is approached at the level of the specialized literature on the one hand through the prism of the specific process of absorption but also from the prism of its impact. Regarding the impact of these funds, some authors do find evidence of a positive impact of European funds on economic growth (Dall'erba, 2005), others only find a weakly positive (Esposti & Bussoletti, 2008), no statistically significant (Dall'grass & Le Gallo, 2008) or even a negative impact (Eggert & al., 2007). Literature generally shows that the states' capacity to absorb European funds depends on the following main factors (NEI, 2002; Sumpikova, Pavel, & Klazar, 2003; Constantin, Goschin, & Dragan, 2011): administrative absorption capacity (related to performance of public administrations at central, regional and local level, program design, project evaluation, coordination assurance between main partners and financing and implementation oversight, which means the management of a large amount of administrative activities), macroeconomic absorption capacity (the capacity to generate sufficient investment opportunities to use European Funds efficiently) and financial absorption capacity (the ability to co-finance these programs by the initial guarantee with funds from the national budget; moreover, it implies the collection of contributions from private or public partners interested in working on joint projects). The most severe issue that negatively contributes to the absorption capacity is embodied by the applicant's difficulties in providing co-financing (NEI, 2002). One of the national government's main task, co-financing, is being completely underestimated and disregarded. (Bachtler & McMaster, 2007).

Other works link absorption with the institutional framework considering that it plays an important role in generating absorption. According to Kálmán (2010) unfinished public administration reforms like overburdened institutional framework, poorly trained human capital and weak inter - vertical communication are among the most common causes of weak absorption capacity. According to the European Commission's recommendations and best practices of other Member States, a golden rule should be considered when designing the institutional structure for the European Funds management. Thus, the smaller the number of institutions involved at different levels of management and programming, the greater the possibility of higher rates of structural funds absorption (Horvath, 2004). Also, the deciding factor of European funds management capacity is the promotion of long-lasting education and training programs within the management authorities and intermediate bodies. This aspect is of

high importance, because of a large number of personnel, more than 60% lacks relevant experience. Even though the institutions have provided training seminars, these have been of reduced length and attendance has been very poor (Berica, 2010). The literature does not provide a unanimously accepted view regarding the issue of absorption of European funds, referring here to both their impact and the variables that facilitate absorption.

Methodology

The article aims to present the characteristics of the National Rural Development Program (NRDP) contracting process by analysing the main specific variables, such as the number of projects submitted, the number of selected projects, the number of cancelled projects and the number of contracted projects. The analysis of the endogenous variables specific to the contracting process was performed in terms of dynamics, since the beginning of the implementation process, but also in terms of influence. The number of contracted projects is the main variable for the absorption process, in this sense, through multiple linear regression, we proceeded to identify the influence that the number of projects submitted, selected and respectively terminated, as independent variables, have on the dependent variable the number of projects contracted, as follows:

$$\text{Contracted projects} = \beta_1 * \text{submitted projects} + \beta_2 * \text{selected projects} + \beta_3 * \text{cancelled projects} + c \quad (1)$$

The Dynamics of Sbsorption at the National Rural Development Program (NRDP) Level, in 2019

The analysis of the managerial system at the level of an operational program must be carried out in the light of all the types of absorption because their dynamics are capable of highlighting the capacity of the managerial system to support the absorption at the level of an operational program. The difference between the types of absorption concerns the number and types of procedures to which the expenditure financed under NRDP is subject. Payments to beneficiaries represent the expenses settled by the managing authority, following a verification carried out by the managing authority while the current absorption represents all the expenses settled at the level of an operational program by the Member State in a certain period. At the same time, the actual absorption represents the expenses incurred by the European Commission. An expense is considered to be realized consistently and definitively only after settlement by the European Commission. Under the conditions of a management system based on the principle of shared management, the quantitative performance of the management system must be interpreted in the light of the difference between the types of absorption so that the smaller these differences are, the higher the quantitative efficiency of the management system.

Table 1. Dynamics of differences in absorption types, 2019

Date	Effective absorption - euro	Current absorption/Payments to beneficiaries	Effective absorption/Payments to beneficiaries	Effective absorption/Current absorption
12/04/2019	3.563.084.550	95,70%	95,20%	99,48%
19/04/2019	3.563.168.225	95,59%	91,58%	95,80%
03/05/2019	3.563.084.550	94,94%	90,96%	95,80%
31/05/2019	3.699.297.045	94,07%	93,57%	99,46%
01/07/2019	3.699.297.045	92,88%	92,38%	99,46%
12/07/2019	3.699.297.045	92,88%	92,38%	99,46%
26/07/2019	3.699.297.045	97,04%	91,01%	93,79%
02/08/2019	3.699.297.045	97,04%	91,01%	93,79%

Table 1 (cont.)

09/08/2019	3.699.297.045	96,46%	90,47%	93,79%
23/08/2019	3.924.227.198	96,46%	95,97%	99,49%
30/08/2019	3.924.227.198	95,43%	94,95%	99,49%
27/09/2019	3.924.227.198	94,26%	93,78%	99,49%
17/10/2019	3.924.227.198	94,26%	93,78%	99,49%
01/11/2019	3.924.227.198	96,41%	89,53%	92,87%
29/11/2019	3.924.227.198	92,87%	86,23%	92,84%
31/12/2019	4.206.411.278	90,60%	90,17%	99,52%

Source: Ministry of European Funds – absorption rates, www.fonduri-ue.ro, 2019

As can be seen in the table above, NRDP is a program with a percentage of absorption considered to be high affirmation proved by the numbers mentioned above. As of 31.12.2019, the level of payments to beneficiaries was 56,51% (4.665.152.642 euro), the current absorption was 52% (4.226.644.095 euro) and the actual absorption of 51,75% (4.206.411.278 euro). According to the dates published by Ministry of European Funds at the end of the year 2019, NRDP is the program with the highest level of absorption at the end of 2019, integrating here all the operational programs managed by Romania during the programming period 2014 - 2020. In 2019, the effective absorption of NRDP has increased by approximately 700 million euros, so that this amount as well as the absorption value proves an absorption process that has reached maturity, it exceeding the threshold of 50% regardless of the type of absorption we refer to. Analysing the differences between the different types of absorption we can see in the table above that they have a reduced value. Also, analysing the percentage of current absorption and payments to beneficiaries we can see that it is above the 90% level, regardless of the date we refer to during the analysed period. However, we can observe oscillations from one date to another, so that on 12.04.2019 the value of the mentioned percentage was 95,7%, on 12.07.2019 by 92,88% and on 31.12.2019 of 90,60%. The situation is approximately similar in the case of the share of the actual absorption in the total payments made to the beneficiaries, this percentage being 95,2% on 12.04.2019, 91,58% on 19.04.2019, 95,97% on 23.08.2019 and 90,17% respectively as of 31.12.2019. The transfer of expenditure from the Member State to the European Commission for analysis and settlement is shown by the percentage between actual and current absorption. As can be seen in the table above, the transfer rate is very high, which is over 90%. Specifically, the percentage we refer to was 99,48% on 12.04.2019, 93,79% on 02.08.2019 and 91,52% on 31.12.2019. Thus, we observe a major transfer rate, a situation that proves the existence of a management system that ensures the transfer of expenses from one stage to another of the managerial system in a short period of time.

Analysis of the Contracting Process at National Rural Development Program (NRDP) 2020 Level - Number of Projects

The analysis of the absorption situation should not be dissociated from the analysis of the contracting process as this is the first stage of absorption. The analysis of the situation of the projects financed at the level of an operational program represents an important variable because the absorption implies first of all a level of contracting correlated with the allocations at the program level. In this respect, the existence of projects in line with the strategic and procedural framework at the operational program level is an important first step in ensuring the absorption process. Depending on the stage at which a project funded by European funds is found, we can identify several variables of interest for analyzing the situation of absorption, namely the projects submitted, selected, contracted or terminated.

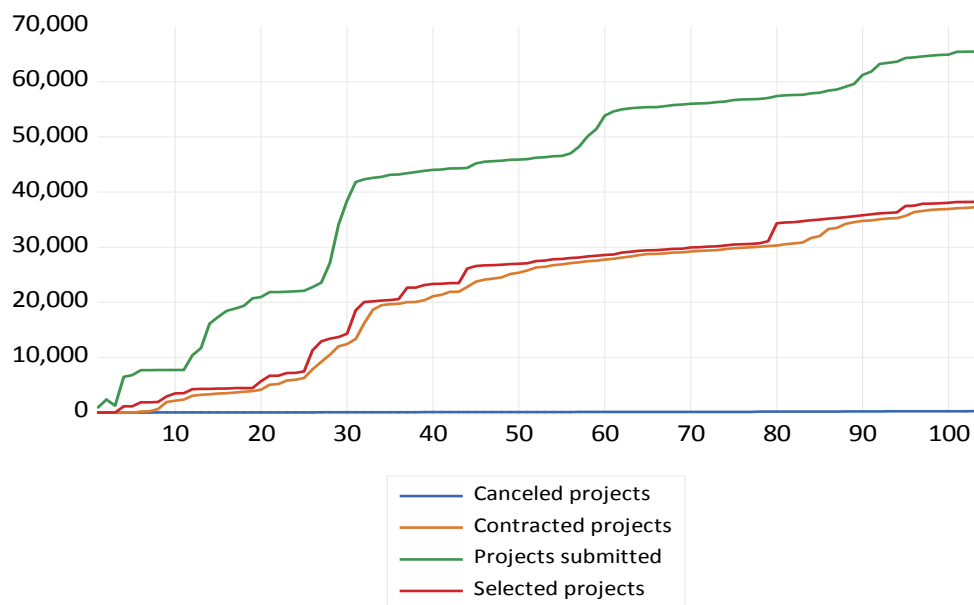


Fig. 1. Dynamics of the number of projects at NRDP level, – absorption rates

Source: www.fonduri-ue.ro, 2019

The author has collected and organized data (unprocessed data) referring to different types of absorption of NRDP. The graph above presents the dynamics of the main endogenous variables from the level of the contracting process between 08.07.2015 - 19.12.2019. The graph above illustrates a constantly increasing level for all the analysed variables, which is considered normal in the conditions of the progress of the implementation process at the NRDP level. Analysing the dynamics at the level of each variable we can see that the highest value is found in the case of submitted projects. A high value of the submitted projects proves a real interest from the potential beneficiaries, implicitly the existence of guidelines of the applicant and a procedural framework perceived as achievable and coherent by them. If in 2015, the difference between the submitted projects and the rest of the variables is smaller, it increases in 2018 and 2019. Besides, the number of submitted projects increased from 926 in 07.08.2015 to 43.410 in 28.12.2017 and 65.494 respectively. 19/12/2019. The number of projects submitted at the NRDP level is one of the highest from the level of the programming period 2014 - 2020. Also, the number of selected projects is smaller compared to the submitted projects, these being 0 in 08.08.2015, 22.670 in 28.12.2017 and 38.237 respectively on 19.12.2019. The number of projects contracted was 0 in 07.08.2015, 20.047 in 28.12.2017 and 37.218 respectively in 19.12.2019. The difference between the number of projects submitted and the selected projects was 20.740 in 28.12.2017 and 23.363 in the case of the difference between the number of projects submitted and those contracted. On 19.12.2019, the same differences were 27.257 (projects submitted and projects selected) and 28.276 (projects submitted and projects contracted). The increase of the aforementioned differences derives on the one hand from the increase in the number of launches organized by the managing authority or by getting the beneficiaries accustomed to the programmatic framework. The number of cancelled projects is reduced compared to the other variables analysed. It was 62 on 28.12.2017 and 241 on 19.12.2019. As a percentage, on 19.12.2019, it represents 0.37% of the number of projects submitted, 0.63% of the number of projects selected and 0.65% of the number of projects contracted.

With the help of the Eviews software, we proceeded to identify the influence that the submitted projects, the selected and the cancelled ones have, as independent variables, on the contracted projects which represents the dependent variable. Thus, a multiple linear regression was

performed that integrates the main endogenous variables specific to the contracting process. They have been integrated into the equation given data for the variables introduced in the model since 2015, these targeting NRDP.

Table 2. Regression model for contracted projects

Dependent Variable: CONTRACTED_PROJECTS

Method: Least Squares

Date: 01/16/20 Time: 15:37

Sample: 1 103

Included observations: 103

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PROJECTS_SUBMITTED	0.059406	0.028747	2.066502	0.0414
SELECTED_PROJECTS	0.828993	0.050605	16.38152	0.0000
CANCELED_PROJECTS	13.70609	3.791736	3.614727	0.0005
C	-1428.876	304.4502	-4.693301	0.0000
R-squared	0.994325	Mean dependent var		21303.48
Adjusted R-squared	0.994153	S.D. dependent var		12262.87
S.E. of regression	937.6707	Akaike info criterion		16.56274
Sum squared resid	87043413	Schwarz criterion		16.66506
Log likelihood	-848.9809	Hannan-Quinn criter.		16.60418
F-statistic	5782.174	Durbin-Watson stat		0.444936
Prob(F-statistic)	0.000000			

Source: own processing – author based on the absorption data published by Ministry of European Funds using Eview software

The relationship between the endogenous variables specific to the contracting process is a strong one, this being proved by the value of the coefficient R. The value of R-squared proves that the variables introduced in the presented regression influence the value of the contracted projects by 99.43%. Also, the value of F-statistic proves that the model is a valid one, which is a positive one.

$$\text{Contracted_Projects} = 0.0594 * \text{Projects_Submitted} + 0.8289 * \text{Selected_Projects} + 13.7060 * \text{Canceled_Projects} - 1428.8763$$

The results of the multiple linear regression equation reveal a positive connection between the endogenous variables that target the contracting process, the interpretation of the regression being presented below:

When the number of projects submitted increases by one unit, the number of contracted projects increases by 0.0594 units.

As can be seen, the relationship between the two variables is a positive one, the independent variable ensuring a relatively small increase of the dependent variable. This situation must be interpreted in light of a large number of projects submitted at the NRDP level since the start of the implementation process, according to the date published by Ministry of European Funds. These are usually concentrated in a small number of measures, but a large number of projects submitted prove the existence of a market implementation capacity, an interest in the needs and measures offered within the NRDP, but also an assumption from them in the implementation program. The relationship between the two variables must be interpreted including from the perspective of their characteristics. The submitted projects are projects that are realized on the basis of the applicant's guide submitted for their evaluation and approval. A large number of projects submitted is an important indicator for the absorption projections. At the same time, the

contracted projects represent the projects that meet the quality level required at the level of the project auction and that integrate all the strategic and procedural elements. The interpretation of the relationship between the two variables is also realized through this point of view, so that from an increase with a unit of the submitted projects implies an increase only 0.0594 units in terms of the projects that will really ensure the conversion of the financial resources. European processes in the economic and social development of the rural environment.

When the number of selected projects increases by one unit, the number of contracted projects increases by 0.8289 units.

The relationship between the number of contracted and selected projects is a direct one, a situation considered to be normal. The selected projects are considered to be those projects that meet the requirements analysed at the level of a project auction but have not entered the contracting process because they either do not fall in the allocation or have not obtained the required score. The relationship between the two variables reveals that out of a unit of selected projects only 0.8289 units represent projects contracted. The selected projects are viewed at the level of the management system as well as a reserve of projects that are immediately available for contracting, provided they meet the entire set of requirements set at the level of the applicant's guide. Also, the difference between the selected projects and the contracted ones is justified including through the specific requirements of the contracting process. Specifically, it involves making available to the managing authority several documents that prove the fulfilment of those assumed at the level of the funding request or documents with a bureaucratic aspect. There is a situation in which the entities that have carried out a selected project do not provide all these documents so that the application for funding is a selected one but does not enter into the contracting process. In this sense, the relationship between the two variables is one in which the number of projects contracted is smaller than the number of projects selected.

When the number of cancelled projects increases by one unit, the number of contracted projects increases by 13.7060 units.

The number of cancelled projects is a small one compared to the other endogenous variables specific to the contracting process. The relationship between the two variables must be interpreted in light of the fact that a small number of cancelled projects ensure a large number of contracted projects. The issue of cancelled projects is interpreted from the point of view of the performance and accuracy of the management system. For example, an efficient evaluation system will not generate projects terminated based on the selection of those funding applications that minimize the specific risks of a funding application. The number of cancelled funding applications is a small situation that proves the existence of a management system considered to be efficient, this being based also on an efficient evaluation and selection system.

Conclusions

NRDP is one of the most important operational programs from the 2014 - 2020 programming period, the importance being crucial for the economic and social development of the rural environment based to the integrated approach of the program dedicated exclusively to the rural development. At the same time, this is a complex program given the diversity of needs but also the allocation that this program benefits from. A high level of complexity generates major challenges in the implementation process. NRDP is a program that delivers a level of absorption considered to be compliant, with a reduced risk of disengagement or loss of money in favour of the European Commission. The specific management system NRDP is one that ensures the transfer of expenses from one stage to another in a short time. This is evidenced by the small differences between the actual absorption, the current absorption and the payments made to the beneficiaries. Higher circulation speeds positively influence absorption. Also, the small differences between the different types of absorption create the premises of a management

system considered to be qualitative. The share of current absorption in payments made to beneficiaries is over 90% in 2019, regardless of the date we refer to. Also, the share of effective absorption in payments made to beneficiaries is over 85% in 2019. The management system, including here the responsibilities that the European Commission has within the management system, based on the principle of shared management, is one that supports this absorption is a catalytic factor. This statement is proved by the level of effective absorption in 2019, which is 3.563.084.450 euro on 12.04.2019 so that on 31.12.2019 its level will be 4.206.411.278 euro.

An integral part of the management system is the contracting stage. All the specific analyzes of absorption start, especially those that concern the first part of the programming period, approaching the contracting process. The number of contract projects has increased significantly since the beginning of the programming period, NRDP being the operational program with one of the most contracted projects according to the numbers presented. A large number of contracted projects represents a major challenge for the management system because the number of entities or persons with which the management system is large. Moreover, in the case of NRDP, we can also observe that in the program are mentioned a significant diversity of the types of entities with which the management system interacts (natural persons, different associative forms, commercial companies, etc.). NRDP is an operational program of interest for interested actors because the number of projects submitted has increased significantly, otherwise with the maturity of the process of implementing the distance between the projects submitted and those selected or contracted has increased. At the end of 2017, 43.410 projects were submitted and at the end of 2019 a number of 65.494 projects. The number of projects selected was 38.237 at the end of 2019. It is estimated that the management system promoted and co-interested the potential beneficiaries of NRDP to be involved in its implementation. Also, the large difference between the number of projects submitted and those selected or contracted reveals the existence of a major selection base, ensuring a selection base that can ensure the high efficiency of the resources that NRDP has. This statement is also reinforced by the small number of projects terminated, so that at the end of 2019, only 241 projects were terminated, representing less than 1% of the number of projects contracted.

Analysing the influence that the independent variables the number of projects submitted, the number of selected projects and the number of cancelled projects have on the dependent variable, namely the number of contracted projects, we can see an influence that justifies the value of the dependent variable in a proportion of 99.43%. The number of projects submitted influences the number of projects contracted with 0.054 units, the number of projects selected with 0.8289 units and the number of cancelled projects with 13.70 units. The influence that the aforementioned independent variables have on the number of projects contracted is one that complies with the valences of the management system, which prove the existence of an existing and unused implementation capacity at the NRDP level, respectively the potential of administering sums over the already existing allocations. The influence values of the independent variables prove the existence of a management system in quantitative parameters provided by the strategic and programmatic framework.

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