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THE ABSORPTION CAPACITIES OF SOUTHEAST EUROPEAN COUNTRIES IN THE USE OF EU FUNDS

Abstract

Membership in the European Union is the aspiration of the most European countries, especially the underdeveloped and politically still unstable, former socialist countries. Those countries strives to find economic prosperity and political stability in the EU, despite many constraints of economic and political nature. In order to help solve the problem and ensure the more successful adaptation the EU has created special financial instruments to assist candidate countries, where each country is responsible for its own progress and withdrawal of available funds.

This work will search all important determinants of use of EU Pre-Accession Funds in SEE countries taking into account features and specifics of each program, as well as problems these countries are facing with. The main purpose and aim of this paper is to explore the absorption capacities of candidate countries and potential candidate countries of SEE in withdrawing funds from EU pre-accession funds. Bearing in mind the political and economic specificities, special attention will be given to its absorption capacities and the possibilities for their improvement in the existing institutional and economic framework.

Keywords: *EU accession, Southeast Europe, European Union, EU funds, absorption capacities*

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1. INTRODUCTION

Association process of Southeast European countries to EU requires strong reforms of political-legal, administrative and economic system. In this demanding and expensive process hopes run high in pre-accession funds and later in structural funds as strong support mechanisms for reforms implementation, especially in poor candidate countries. However, EU financial funds, pre-accession and structural, unlike classical budgets, do not function at expenditure principle but at the project one. That means that these funds are not allocated according to needs but based on quality and sustainable projects that should be prepared by each country or narrow political-territorial unit. So, for withdrawal of certain available EU funds quality projects should be prepared and submitted in accordance with priority areas of the current budget period within financial envelope or allocated funds.

2. THEORETICAL FRAMEWORK

Accession to the EU is defined as priority national, economic and political goal in all Southeast European countries. That is also interest of the EU due to economic and non-economic reasons. However, because of certain specifics of the Southeast European countries, integration of mentioned countries is carried out through Stabilisation and Association Process that defines more rigorous criteria than those within European agreements that were accession framework for countries of the last enlargement circle (2004 and 2007), what makes accession process even more complicated and longer.

In the economy absorption capacity is the most related with available capacities for preparation and implementation of projects, or as capacity of withdrawing funds in accordance with defined criteria. Since economic structure and other features (cultural, historical, social, resources, climate, geographical etc.) between countries and regions differ it is to be assumed that this will generate differences in absorption capacities according to specific EU initiatives, or total pre-accession and later structural and cohesion funds. Differences in absorption capacities lead to different distribution of integration process benefits at regional and national levels.

The term absorption, although it sounds technical, is a product of the European institutions, and refers to preparation of member country for full membership and participation in all EU politics. So, absorption capacity means the ability of certain country or region to implement EU program policies and withdraw funds from common cash register aimed for certain policies and initiatives in order to strengthen its own position at Single European market. At the concrete project level, absorption capacity refers to the quality of comprehensive development policy that includes all phases from planning to monitoring and evaluating project activities. Definition and measurement of absorption problems are developed in 1997 by Hervé and Holzmann who dealt with capacities of less developed regions to absorb productively funds while trying to find some empirical evidences in EU structural policies.¹

Absorption capacities issues are especially evident in the EU accession process, but they are actualized also between existing member states when defining priority goals and policies for next programming period. In the project model of funding significant role belongs to administrative and governing system of each country and region, or to capacity and skills of central and local authorities in preparing plans and projects, choosing already prepared project, coordinating all economic policy holders at all levels of political-territorial organisation, reporting on achieved results and in financing and monitoring the implementation.

For each member state their readiness and capacity to withdraw supranational funds is very important as on that matter they realize given program goals and ensure participation in EU common policies or in decision making. From the other hand, for candidate countries and potential candidate countries withdrawal of pre-accession funds also has double effects, from the one side it ensures so much needed funds for reforms implementation (administration, judiciary,

¹ Hervé, I. and Holzmann, R.: Large Scale Fiscal Transfers, Absorptive Capacity of Regions and Economic Convergence: A Review and Evaluation of the Academic Literature and Empirical Evidence with Specific Attention to the EU; Study for the European Commission, European Institute, University of Saarland, Saarbrücken, 1997.

corruption etc.) but also carries out a kind of training to overcome schemes and procedures for funds withdrawing for country to be more prepared for fund withdrawing and participation in common policies when becomes EU member state.

So, in final the absorption capacity implies the extent to which individual country is capable to spend efficiently and effectively financial funds available from Structural Funds.² Some authors see absorption capacities through prism of readiness of necessary capacities for funds withdrawing whereby they distinguish: financial, institutional, legal, documentation and personnel readiness as key categories determining absorption capacities.³ But it needs to be addressed that absorption capacities are in short-term significantly determined by national political system and internal organisation. Therefore changes are hard, and absorption capacities improvements, especially in public administration segment, largely depend on political situation in the country, stability of parliamentary majority and its commitment to necessary reforms implementation in order to increase efficiency and absorption capacities of country or region. The diversity of existing national organisations in EU has significant impacts on absorption capacity. Koprić (2012) calls local government in Croatia as "the broken toy in hands of policy" that is not capable to take over more important role in economic development or to use available EU funds.⁴ Maleković and Puljiz (2010) identify necessary improvement of regional competitiveness.⁵ From the aforementioned

² NEI: Absorption capacity for Structural Funds in the regions of Slovenia; final report prepared by the Netherlands Economic Institute for the National Agency for Regional Development of Slovenia, in the framework of PHARE: Special Preparatory Program for Structural Funds in Slovenia, Ljubljana, 2002.

³ Daszuta, A: The problem of the so-called readiness as the determinant of the effective absorption of Structural funds, based on example of the Podlaskie region in Poland, 2000.

http://www.nispa.org/conf_papers_list.php?cid=2 (30.8.2016.)

⁴ Koprić, I.: Lokalna samouprava u Hrvatskoj – pokvarena igračka u rukama politike, u: Zakošek, Nenad (ur.) 1. forum za javnu upravu – Lokalna samouprava i decentralizacija. Zagreb: Zaklada Friedrich Ebert i Institut za javnu upravu, 2012., str. 7-28

⁵ Maleković, S. i Puljiz, J.: Izazovi novog pristupa upravljanju razvojem na lokalnoj i regionalnoj razini u Hrvatskoj, u: Brbić, Jakša (ur.) Nova hrvatska lokalna i regionalna samouprava, Zagreb: HAZU, 2010. str. 213

it can be seen that operative readiness of public government for preparation and implementation of projects at national and lower levels has significant role in preparation of quality projects within defined program goals defining also the amount of withdrawn funds.

Insufficient development of Southeast European countries and their inclusion at single market requires significant efforts. Bearing in mind conditions of national economies of SEE countries, orientation towards EU membership and necessity for reforms in many segments of social-economic system, available funds of EU Pre-Accession Funds should be seen as significant impulse for the launch of reform processes. At the same time pre-accession funds may not be the only source for financing reform processes but impulse that will activate other participants and launch reform processes of social-economic system and their adjustment to the Single European Market.

Even though new member countries and candidate countries set as a goal the total available funds absorption, experiences of previous accession processes show that this is hard to achieve because it requires implementation of planned activities that is often impossible to realise completely or at predicted manner. From experiences of countries joined to EU in 2004 and 2007 it can be seen that absorption capacities can be improved by creating quality development documents with defined priorities that are later to be transferred into quality development projects. However, some vulnerability can be seen in providing continuity of funds absorption during after-accession period, what shows that there could be possible "saturation point" in absorption of the European Convergence Policy funds.⁶

Due to complexity and large scope of absorption capacities, economists classify them mostly in three groups or areas making certain units.⁷

1. *The macroeconomic absorption capacity* - represents maximum amount of funds that certain country or region in

⁶ Cace, C., Cace, S., Iova, C. and Nicolescu, V.: Absorption capacity of structural funds. Integrating perspectives, Revista de cercetare si interventie sociala, vol. 27, 2009. p. 7-28.

⁷ Dudaiala-Popescu, L.: The structural funds management in third-Central and Eastern Europe, 2009. <http://mpa.ub.uni-muenchen.de/12882/>

specific moment is able to absorb and it ranges around 4 % of GDP. The amount of funds available to some country within funds is partially determined by macroeconomic absorption capacity because funds are always allocated with certain conditions.

2. *Financial capacity* - represents capacity to ensure funds for co-financing projects, because beside European Funds one part of project is financed by member states, or its institutions, organisations or business entities participating in the project. The Co-financing mechanism forces countries to ensure certain amount of financial funds for investment in program goals, mostly between 20 and 25 percent of total funds for financing activities as well as necessary financial guarantee. Thanks to dominant financing of projects form EU Funds, member states and candidate countries may achieve certain goals of general interest without borrowing at domestic or international market.
3. *Governing-administrative capacity* - refers to capability of the country, or its central, regional and local authorities to govern available funds form the EU Funds. This does not include just public administration organisation, but also institutional coordination process, the competence and motivation of employees, quality and stability of legal regulation etc. This criteria implies acceptance of overall acquis or functional integration in the EU and assurance of preconditions for participation in creating and implementing common policies. Basically, this capacity can be seen through capacity of relevant levels of governing to prepare adequate plans, programs and projects in reasonable deadlines and to make decision on priorities, cooperate with all relevant partners in all phases of preparation and realisation, efficiently perform defined projects and ensure efficient monitoring system. To build governing-administrative capacity the key measures are institutions and human resources dealing with programming, implementation and evaluation of EU funds in certain country.⁸

⁸ Đulabić, V.: Apsorpcijski kapacitet i korištenje sredstava fondova europske unije: izazovi i prilike za Hrvatsku. 2. forum za javnu upravu, Friedrich Ebert Stiftung i Institut za javnu upravu, Zagreb, 2012. str 14.

Even though due to many correlations and interdependencies this is hard to measure, more and more empirical studies deal with impact of institutions on economic lagging behind of certain regions and countries, and World Economic Forum has already listed indicator of social infrastructure and political institutions development in phases of economy's development.
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National governments have to take care on financial absorbing capacities including contributions of all partners in project. The annual average of estimated total costs for new member states (EU-10) before accession to the EU was 3,2% of GDP, out of which 1,6 of GDP was financed from the budget of general state in average, whereby this amount went from minimal 0,4% of GDP in Poland up to 3,6 of GDP in Bulgaria.¹⁰ Even after accession to the EU new member states had large fiscal costs for infrastructure development and public administration reform that costs 2-3% of GDP per year.¹¹ It is useful to do cost-benefit analysis for each investment and to create quality selection system at national and regional level, where special attention should be paid on good projects.

Beside financial, absorption capacities of SEE countries are determined by administrative capacities whose building become actual by opening negotiations with East European transition countries whose administrative capacities should be adjusted with the European standards. Since the funds are allocated through projects it needs to create capacity of creating acceptable project proposals. The macroeconomic and financial components are measurable and they should not be major problem for SEE countries, but administrative

⁹ Michael E. Porter et al: Moving to a New Global Competitiveness Index. In M. E. Porter and K. Schwab (eds.), The Global Competitiveness Report 2008-9., World Economic Forum, Geneva, 2008.

¹⁰ Dabrowski, M., Antczak, M. and Gorzelak, M.: Fiscal Challenges Facing the UE New Member States, Center for social and Economic Research, Warsaw, 2005., p. 8-10

¹¹ Antczak, M., Markiewicz, M. and Siwinska, J.: Fiscal pressures on the road to EMU, Center for social and Economic Research, Warsaw, http://euroframe.org/files//user_upload/euroframe/efn/spring2006/EFN_Spring06_App_Antczak_et_al.pdf

structure as fluid category definitely has decisive impact on absorption capacities and evaluation of readiness for membership.¹² Estimation of institutional capacity can be made based on:

1. Estimation of capacity to provide services and changes management,
2. Estimation of absorption capacity and capacity to achieve sustainable benefits through project,
3. Estimation of good governance including organisational adequacy, responsibility and transparency.

Bauer (2001) indicates problems with overloaded administration, lack of vertical communication and horizontal coordination as typical administrative factors and all together decrease organisational capacities of the Commission. At the national level there are problems of organisation of political system, labour institutions, administrative capacities and abilities and finally economic policy.¹³ Pylak (2007) identifies problems at the level of governing, culture or management practice, financial funds, service quality, human capacities, administrative capacities, control, monitoring etc.¹⁴

For SEE countries the EU accession process is performed through Stabilisation and Accession Agreement. After signing SAA the EU Council defines dynamics of negotiations with each country individually depending on progress in Agreement implementation. When progress in Agreement implementation is faster, negotiation dynamics may be accelerated if it is not limited by some other "valid" reason for slowing down or blocking negotiations (Court in Hague, neighbourhood relations etc.) Negotiation process also can be stopped by the Commission if there are significant violations of values like human rights, general freedoms, legal state etc.). The special segment of SAA is regional cooperation in political and economic part that is

¹² Horvat, A.: Why does Nobody Care About the Absorption? WIFO Working Papers, no. 258. Vienna: Österreichisches Institut für Wirtschaftsforschung, 2005. p. 6,7

¹³ Bauer, M. W.: A Creeping Transformation? The European Commission and the Management of Structural Funds in Germany; Library of Public Policy and Public Administration, Vol. 6, Springer science, Kluwer, 2001. p. n/a

¹⁴ Pylak, C.: Intelligent region management-Intelligent absorption of EU funds, Romanian Journal of Regional Science, Vol.1/1, 2007., p. 71, 72

set us precondition of progress in negotiations. The integration progress of SEE countries can be seen in Table 1

Table 1: Improvement of SEE countries towards EU membership

| GEO/IND | Signed SAA | Submitting membership application | SAA enters into force | Opening negotiations |
|------------------------|------------|-----------------------------------|-----------------------|----------------------|
| Albania | 12.06.2006 | 24.04.2009 | 01.04.2009 | - |
| Bosnia and Herzegovina | 16.06.2008 | 15.02.2016 | 01.06.2015 | - |
| Montenegro | 15.10.2007 | 15.12.2008 | 01.05.2010 | 29.06.2012 |
| FYR Macedonia | 09.04.2001 | 22.03.2004 | 01.04.2004 | - |
| Kosovo | 27.10.2015 | - | 01.04.2016 | - |
| Serbia | 29.04.2008 | 22.12.2009 | 01.09.2013 | 21.01.2014 |

Source: Made by author according to web page of the European Commission

From Table 1 it can be seen that all observed countries have individually accessed to the integration process, even though the regional cooperation of the observed countries is very often defined as a necessary part of the integration process. Serbia and Bosnia and Herzegovina started the accession process at the latest, and signed SAA in 2008. Thanks to greater political determination, Serbia, whose progress is determined by relations with Kosovo, has made significant progress and opened negotiations on full membership in 2014, while Bosnia and Herzegovina still waits the Commission Opinion on submitted EU membership application. Due to the slow implementation of reforms and the complexity of political relations, the accession process of BiH is slow. In particular interesting situation is with FYR Macedonia that get candidate status in 2005 but negotiations are blocked due to political problems. In 2009 the Commission has noted that country had resolved political criteria satisfactorily and proposed opening negotiations but they are not opened yet due to dispute with some member states. "The worst boy" in the observed class of countries is Kosovo, which did not start the negotiations on SAA until 2013, and the SAA was signed in 2015 and entered into force on 01.04.2016. Beside political instability, extreme crime at all state levels and malfunctioning of the state, integration

process of Kosovo towards EU is hard by the fact that all EU member states have not recognised Kosovo as independent country.

3. FINANCIAL ASSISTANCES TO ACCESSION PROCESS

The EU grants to candidate countries and potential candidate countries certain financial funds aimed to concrete projects in order to support implementation of reforms in sectors for which the Commission decides to be supported and reformed according to community standards.¹⁵ Pre-Accession Funds are mostly aimed to political, institutional, and socio-economic reforms or adjustments to common institutional, legislative and economic frameworks of EU. Bearing in mind economic situation in SEE countries it is evident that the countries show great interest for these funds because they are important source for financing public projects. In the context of absorption capacities the crucial role belongs to readiness of regional and local units to apply and use funds in development-driven manner, whereby significant limitation may be gap between political and fiscal decentralisation.

Since 2007 the support to candidate countries and potential candidate countries is realised through unique mechanism - Pre-Accession Assistance Instrument - IPA replacing all previous instruments (PHARE, ISPA, SAPARD, Turkey pre-accession instrument and CARDS). The Program is consisted of 5 components:

- IPA 1 - refers to transition and institution building, and includes measures for institution building as well as transition and stabilisation measures still necessary to SEE countries.
- IPA II - refers to cross-border cooperation, especially between SEE countries but also with EU members. The component ensures participation in specific international cooperation programs as well as maritime regions cooperation within the European Neighbourhood and Partnership Instrument ENPI program.
- IPA III - refers to regional development and finances investments and technical assistance in the field of traffic,

¹⁵ Samardžija, V.: Reforms in Lisbon Strategy Implementation: Economic and Social Dimensions, International Conference, Institute for International Relations and Friedrich Ebert Stiftung, Zagreb, 2006., p 14-18

environmental protection and promotion of regional competitiveness.

- IPA IV - refers to human resources development and is aimed to inclusion of all social groups in the social system and improvement of human capital quality.
- IPA V - refers to development of villages and is tightly connected with rural development programs implemented in member states within new financial perspectives.

For IPA II assistance are created structures and competences necessary for management, control, monitoring, evaluation, reporting and internal review of assistance allocated between the National IPA Coordinator, the National Authorising Officer and the Operating Structures.¹⁶ Regulation on establishment of IPA II instrument eliminates classification on previous five components, and new policy areas are introduced within that intervention will be implemented, where, unlike previous IPA program, all countries will have access to all areas. Intervention fields are classified according to IPA II program on : a) reforms during preparation for the EU membership and related institution and capacity building; b) social-economic and regional development; c) employment, social policies, education, promotion of gender equality and human resources development; d) agricultural and rural development; e) regional and territorial cooperation. The progress within IPA II program will be monitored through indicators, and available funds will be allocated depending on the progress. IPA programs are aimed to promote local and regional management and increase planning and local and regional administrations management capacities.¹⁷ For successful EU funds withdrawal it is necessary to coordinate central national bodies that make national strategy (prioritize and integrate all projects applying for the European funds), decision-making bodies and coordination and

¹⁶ European Commission; Commission implementing regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre- accession assistance (IPA II), Official Journal of the European Union, May 2014

¹⁷ European Parliament and the Council of the European Union, Regulation (EU) no 231/2014 of the European Parliament and of the Council, Establishing an Instrument for Pre-accession Assistance (IPA II), Official Journal of the European Union, March 2014

control bodies. In this context strategic planning is inevitable without which it is not possible to define priority areas and sectors that can be financed from available funds and initiatives. An inevitable role in creating suitable projects and their preparation for evaluation belongs to private and civil sector capacities.

Although the mechanism of pre-accession instruments, in particular of IPA, is in some measure created following the Structural Funds, the situation for the new EU member changes significantly by joining to EU. It gets access to the EU Structural and Cohesion Funds, with the obligation to co-finance, but also assumes certain financial obligations under the EU Budget.¹⁸ Table 2 shows the utilisation of EU funds in the countries of Central and Eastern Europe.

Table 2: Utilisation of EU funds in Central and Eastern Europe countries for the period 2007-2013

| IND / GEO | BG | CZ | EE | HU | LV | LT | PO | RO | SK | SLO |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Available (€ billion) | 8,0 | 31,0 | 4,1 | 29,3 | 5,0 | 7,3 | 82,1 | 23,3 | 13,4 | 4,8 |
| Available per capita € | 1.044 | 3.009 | 3.035 | 2.913 | 2.172 | 2.161 | 2.530 | 1.078 | 2.490 | 2.400 |
| Contracted (billion €) | 3,0 | 17,2 | 2,5 | 15,0 | 3,7 | 5,0 | 43,5 | 10,4 | 7,6 | 2,3 |
| Contracted per capita € | 391 | 1.669 | 1.835 | 1.493 | 1.643 | 1.469 | 1.142 | 481 | 1.409 | 1.144 |
| Paid 2007-10 (billion €) | 0,8 | 8,1 | 0,9 | 4,8 | 1,5 | 2,1 | 13,1 | 1,5 | 2,3 | 1,3 |
| Paid per capita € | 103 | 788 | 635 | 478 | 644 | 629 | 344 | 71 | 418 | 644 |
| Contract ratio | 37 | 55 | 60 | 51 | 76 | 68 | 53 | 45 | 57 | 48 |
| Payment ratio | 10 | 26 | 21 | 16 | 30 | 29 | 16 | 7 | 17 | 27 |

Source: Made by author according to web page of the European Commission

¹⁸ Mrak, M. and Uzunov, V.: EU Development Funds and the Republic of Macedonia, Sector for European Integration, Government of the Republic of Macedonia, Skopje, 2005. p 63-65

In the period 2007-2010 the EU member states absorbed funds in average at 2,7% of their GDP. However, in the current programming period (2014-2020) the available funds have been reduced and the budget adopted is only EUR 908 billion in payments and EUR 960 billion in commitments, which is for 3,5% less than the budget in previous period. The absorption capacities of new member states after joining EU were extremely low, what caused them not be able to withdraw more than 40 percent of total available funds, or 0,5 percent of GDP in the first years of membership. During time, the absorption capacities have grown up to 1,5% of GDP in 2010 and over 2% of GDP at the end of the programming period in 2013.

Their experiences testify that, despite long preparation periods, they faced with significant difficulties during the first years of their membership. For this reason, it is extremely important in the pre-accession period to develop effective absorption capacities, that must certainly be detected by the highest political leadership. In order to withdraw as many funds as possible, it is necessary to work on creating strategic project stocks that are ready to be funded or aligned with the EU guidelines in the observed programming period.¹⁹ Due to payments to the EU common budget, the co-financing of approved projects, the continuation of implementing the *acquis* in the areas of environmental protection, infrastructure, border control and public administration, administrative infrastructure building is of the most importance in the pre-accession period because, in addition to better coordination and pre-accession funds management it also enables preparations for the use of EU Structural Funds when the country becomes a full EU member.²⁰

It should be underlined here that the ability to attract and implement funds from EU funds does not imply an identical contribution to

¹⁹ Gjorgjievski, M.: *The EU Instrument for Pre-Accession Assistance: The path to a successful start. Using IPA and other EU Funds to Accelerate Convergence and Integration in the Western Balkans*. Budapest: CEU. 2008.:

²⁰ Antczak, M., Dabrowski, M. and Gorzelak, M.: *Fiscal Challenges Facing the New Member States* [online]. Paper for the DG ECFIN Workshop on 'Fiscal Surveillance in EMU: New Issues and Challenges'. Brussels, November 12, 2004, [http://ec.europa.eu/economy_finance/events/2004/bx11104/papers/dabrowski_en.pdf].

economic growth and the socio-economic development of all countries or regions. Classification of projects on development and non-development is often not based on exact data, but is adopted politically, without measuring the concrete impact on development. Stiglitz studied the usefulness of such investments and developed the concept of fungibility according to which money entering in country for one purpose frees money for another purpose, where the final net effect may not have nothing with the original purpose.²¹ Availability of pre-accession funds for SEE countries in the 2007-2013 programming period is shown in Table 3.

Table 3: Instrument for Pre-Accession Assistance into allocations by country (in 000 €)

| GEO / TIME | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------|---------|---------|---------|---------|---------|---------|---------|
| Albania | 61 000 | 73 820 | 81 183 | 94 173 | 94 428 | 94 574 | 98 112 |
| BiH | 62 100 | 74 800 | 80 108 | 105 385 | 107 428 | 107 868 | 111 812 |
| Croatia** | 141 227 | 146 000 | 151 200 | 153 585 | 156 528 | 156 181 | 95 456 |
| FYR Macedonia | 58 500 | 70 200 | 81 782 | 91 685 | 98 028 | 101 883 | 117 212 |
| Montenegro | 31 400 | 32 600 | 34 500 | 33 522 | 34 154 | 36 035 | 35 415 |
| Serbia | 189 700 | 190 900 | 194 800 | 197 958 | 201 880 | 202 098 | 214 732 |
| Kosovo | 68 300 | 184 700 | 106 100 | 67 300 | 68 700 | 68 800 | 73 700 |

** joined the EU on 01.07.2013.

Source: European Commission, Communication from the Commission to the European Parliament and the Council, Instrument for Pre-Accession Assistance (IPA), revised multi-annual indicative financial framework for 2012-2013, Brussels, 2012

From the data in Table 3 it can be seen that in the past programming period the most funds were available to Serbia and Croatia as the largest and the most significant SEE countries in the integration process. Serbia had over EUR 1,18 billion available during the observed period, while about EUR 550 million was available to Bosnia and Herzegovina. The available funds are allocated with a slightly increasing trend over the years, except for Kosovo. The allocation of pre-accession funds for the period 2014-2020 is presented in Table 4.

²¹ Stiglitz, E.J.: Globalizacija i dvojbe koje izaziva, Zagreb, Algoritam, 2004.

Table 4: Allocation of pre-accession funds for the period 2014-2020
(in 000 €)

| IND / GEO | Albania | BiH* | FYR Macedonia | Montenegro | Serbia | Kosovo |
|---|---------|-------|------------------|------------|--------|--------|
| Democracy and governance | 223,5 | 31 | 122,9 | 46,9 | 275,0 | 110,4 |
| The rule of law and human rights | 97 | 33 | 83 | 52,3 | 265,0 | 126,2 |
| Environment and climate changes | 68 | | 112,9 | 37,5 | 160,0 | |
| Transport | 56 | | 112,9 | 32,1 | 175 | |
| Energy | | | | | 125 | 100 |
| Competitiveness and Innovation | 44 | 63,8 | 73 | 21,2 | 105 | 135 |
| Education, Employment and Social Policy | 69 | 38 | 53,2 | 28,1 | 190 | 94,2 |
| Agriculture and Rural Development | 92 | | 106,3 | 52,4 | 210 | 79,7 |
| Total | 649,4 | 168,8 | 664 | 270,5 | 1 508 | 645,5 |

* for the period 2014-2017

Source: European Commission, Enlargement Policy, https://ec.europa.eu/neighbourhood-enlargement/instruments/funding-by-country_en

From Table 4 it is clear that for the programming period 2014-2020 a slightly different scheme of pre-accession funds allocation has been created with a clear emphasis on policy areas within which interventions (energy, transport and others) will be carried out. For this programming period, a new rating system was created through monitoring the indicators. Most funds are allocated to Serbia, and at least to Montenegro and BiH.

4. MACROECONOMIC FRAMEWORK OF SOUTH EASTERN EUROPE ECONOMIES

As the absorption capacities for pre-accession funds are monitored through three categories: macroeconomic, financial and administrative, the macroeconomic and financial absorption capacities of pre-accession funds will be analysed below. Table 5 shows the

movements of the total population of the observed countries of South Eastern Europe.

Table 5: Total population SEE countries

| GEO / TIME | 2005 | 2008 | 2011 | 2015 |
|--------------------------|-------------|-------------|-------------|-------------|
| EU (28 countries) | 494 774 599 | 500 297 033 | 502 964 837 | 508 504 320 |
| Albania | 3 134 975 | 2 958 266 | 2 907 361 | 2 892 302 |
| Bosnia and Herzegovina * | 3 842 532 | 3 842 265 | 3 839 737 | 3 819 486 |
| FYR Macedonia | 2 035 196 | 2 045 177 | 2 057 284 | 2 069 172 |
| Montenegro | 622 978 | 615 543 | 619 850 | 622 099 |
| Serbia | 7 456 050 | 7 365 507 | 7 253 969 | 7 114 393 |
| Kosovo | 2 041 000 | 2 153 139 | 1 798 645 | 1 772 107 |

*estimations

Source: Eurostat, Date of extraction 30.09.2016.

In the observed area of SEE in 2015, there were 18 289 559 persons, that is only 3,6% of the EU population. From the presented data it is evident that all countries except Macedonia recorded a decline in the number of population after the economic crisis in 2008. The biggest decline is recorded in Kosovo and Albania, where in the seven-year period the population declined by 360,000 or 300,000, that is fall of over 10% in the observed countries. The declines are explained by migration namely economic, as these economies are strongly affected by the crisis in 2008. The rapprochement with the EU and the process of visa and residence regime liberalization for persons from these countries has certainly contributed to this and made migration more easier. According to the assumed causes, Table 6 shows real GDP growth rates of observed countries.

Table 6: Real GDP growth rate (%)

| GEO / TIME | 2006 | 2008 | 2009 | 2010 | 2012 | 2014 |
|------------------------|------|------|------|------|------|------|
| Albania | 5,4 | 7,5 | 3,4 | 3,7 | 1,4 | 2,1 |
| Bosnia and Herzegovina | 5,7 | 5,6 | -2,7 | 0,8 | -1,2 | 1,1 |
| Montenegro | 8,6 | 6,9 | -5,7 | 2,5 | -2,5 | - |
| FYR Macedonia | 5,1 | 5,5 | -0,4 | 3,4 | -0,5 | 3,8 |
| Serbia | 4,9 | 5,4 | -3,1 | 0,6 | -1,0 | -1,8 |
| Kosovo* | 3,4 | 4,5 | 3,6 | 3,3 | 2,8 | - |

* (under United Nations Security Council Resolution 1244/99)

Source: Eurostat, Date of extraction 30.09.2016

After quite high growth rates before the economic crisis, all economies, except Albania and Kosovo, recorded a GDP decline in 2009 due to the economic crisis. The decline was the most in Montenegro and Serbia, where GDP fell by 5,7%, or 3,5%. However, after a mild recovery in 2010 and 2011, in 2012 the same economies enter into recession again, though something milder. If we look at the data more detailed, it is evident that no observed economy has been able to return to the pre-crisis growth paths. This indicates the fragility of the economies of the observed countries and the strong macroeconomic imbalances that are largely result of inadequate economic structure. These macroeconomic trends may encourage the transition of a more quality personnel to the public sector and thus strengthen administrative absorption capacities. On the other hand, negative economic trends reduce investment and prefer security to profitability, that negatively effects creating and launching projects, ie. the willingness to take risks and close the financial construction. Table 7 shows macro indicators of observed SEE countries.

Table 7: Macro Indicators of Observed Countries 2015

| GEO / IND | Agriculture share in GVA | GDP pc in PPS (EU-27 = 100) * | Inflation rate (%) | Budget deficit (% of GDP) | General government gross debt (% of GDP) | Trade balance (EUR million) | Import export coverage |
|------------------------|--------------------------|-------------------------------|--------------------|---------------------------|--|-----------------------------|------------------------|
| Albania | 22,6 | 28 | 2,0 | 4,0 | 72,5 | -2 299 | 25,1 |
| Bosnia and Herzegovina | 7,1 | 28 | -1,0 | 2,0 | 41,9 | -3 793 | 48,4 |
| Montenegro | 9,8 | 39 | 1,5 | 7,3 | 63,3 | -1 464 | 18,1 |
| FYR Macedonia | 10,2 | 36 | -0,3 | 3,6 | 38,0 | -1 825 | 62,4 |
| Serbia | 9,7 | 35 | 1,9 | 3,7 | 76,4 | -3 993 | 73,9 |
| Kosovo | 14,4 | - | -0,5 | 2,0 | 13,0 | -2 109 | 13,6 |

* date for 2014

Source: FIW-WIIW, Data Eastern Europe and Eurostat, Date of extraction 15.09.2016.

Data from the table indicates that the countries of the region have a GDP per capita per PPS 40% below the European average. If we look at the budget, it is evident that all countries in the region have a

budget deficit, where the largest deficit is in Montenegro. This shows its extreme sensitivity to disturbances in tourism and large industrial systems. Problems of low competitiveness on the foreign market are evident in all observed countries, especially in Kosovo, Montenegro and Albania, whose commodity import export coverage ranges from 13% to 25%, that is extremely low. This shows the significant import dependence of the mentioned economies and the strong foundations of the economy on the consumption concept. The functioning of the economy with such high disparities is somewhat facilitated by high one-way transfers.

The decrease in the deficit level in 2009 in most of the countries of the region is the consequence of the fall in prices of major products on the international market, such as oil, metals and food products, which slowed down the increase in import value and partly resulted from the psychological effect, resulting in a decrease of import consumption. However, after 2011, the trade deficit continued to grow slightly and in 2015 it reached earlier values, except in Serbia, which managed to maintain a significantly higher export-import coverage (74%). These trends support the thesis that the growth of the observed economies in the past period was largely based on consumption and import, which resulted in a fall in GDP again in 2012 and 2013.

It is evident that the economic crisis has adversely affected state finances, as negative positions have risen, where Serbia (76%) and Albania (72%) accumulated the highest debt. It was expected that with the positive economic growth rates the budget deficit would decline, but it continued to grow, so some countries were forced to seek the help of the IMF. State finances in the countries of South Eastern Europe have deteriorated during and after the crisis, resulting in a constant budget deficit and a rise in debt. Such trends have a negative impact on absorption capacities due to reduced co-financing opportunities, and are particularly marked at lower regional management levels.

Poor macroeconomic indicators make it difficult to build and increase macroeconomic and financial absorption capacities. As a very important indicator of the national economy state and the absorption

capacities the trends in employment and unemployment in SEE countries is shown in Table 8.

Table 8: Employment and unemployment rates in SEE countries

| GEO / TIME | Unemployment rate | | | Employment rate (15-64) | | |
|------------------------|-------------------|------|------|-------------------------|------|------|
| | 2005 | 2010 | 2015 | 2005 | 2010 | 2015 |
| Albania | 14,1 | 14,0 | 17,1 | : | 53,5 | 52,9 |
| Bosnia and Herzegovina | 43,9 | 27,3 | 27,9 | 35.0* | 39,0 | 39,2 |
| FYR Macedonia | 37,3 | 32,0 | 26,1 | 39.6* | 43,5 | 47,8 |
| Montenegro | 30,3 | 19,7 | 17,5 | 40,93 | 47,6 | 51,4 |
| Serbia | 20,8 | 19,2 | 17,6 | 51,00 | 47,3 | 52,1 |
| Kosovo | 41,4 | : | 32,9 | 28,5 | : | 25,2 |

* Data for 2006

Source: Eurostat, Date of extraction 15.09.2016. (ILO Methodology- Unemployment based on Survey)

All observed countries have high unemployment rates, and Kosovo and BiH have the largest one, where 32,9% and 27,9% of working population respectively is unemployed, while at the same time unemployment in the northern EU member states is about 7%. If the rate of registered unemployment is observed, then the worst situation is in BiH, where the registered unemployment rate is 45%, which is a record unemployment rate in a European country. Beside the unemployment rate, it is important to analyse the employment rate to form a complete picture of a particular economy. The EU strives to achieve an average employment rates of 70% (many more developed countries in the European core have achieved a target rate), while in SEE countries the best results are achieved in Albania with the employment rate of 53%. At the same time, the lowest employment rate of only 25% is recorded in Kosovo. To study administrative absorption capacities it is necessary to research long-term unemployment and participation in education and training programs as shown in Table 9.

Table 9: Life long learning and long-term unemployment in SEE countries

| GEO / TIME | Life-long learning (%) * | | | | | long-term unemployment rate | | | |
|------------------------|--------------------------|------|------|------|------|-----------------------------|------|------|------|
| | 2007 | 2009 | 2011 | 2013 | 2015 | 2009 | 2011 | 2013 | 2015 |
| Albania | 2,0 | : | : | : | : | 9,1 | 10,2 | 11,5 | 11,3 |
| Bosnia and Herzegovina | 2,9 | 2,5 | 2,8 | 2,5 | 2,3 | 20,1 | 22,3 | 22,9 | 22,8 |
| FYR Macedonia | 2,8 | 3,3 | 3,4 | 3,5 | 2,6 | 26,3 | 25,9 | 23,9 | 21,3 |
| Montenegro | : | : | 2,8 | 3,0 | 3,0 | 15,6 | 15,7 | 16,0 | 13,6 |
| Serbia | 3,0 | 4,0 | 3,5 | 3,9 | 4,8 | 10,5 | 16,9 | 16,8 | 11,3 |
| Kosovo | : | : | : | : | : | 16,8 | - | 20,7 | 23,8 |

* share of people aged 25-64 having participated in education and training (at any time during a period of four weeks period prior to being surveyed) (%)

Source: Eurostat, Date of extraction 04.10.2016.

Data from Table 9 suggests that, due to extremely high long-term unemployment rates in most countries (15% and more), a significant proportion of the active population aged 15-64 does not contribute at all to the total output by doing any permanent or temporary job. However, the story does not end there because not just they do not contribute, they also use various social programs of the countries and additionally burden the overloaded social system. On the other hand, a very small part of the working population or the labour contingent attends vocational and training programs, only about 2% in Albania to 4,8% in Serbia, that is considerably less than in the EU where over 10% of observed age group participates in the vocational and training programs. Accordingly, it can be concluded that participation in the labour market in all observed countries is unsatisfactory, where the functioning of the labour market is prevented by the rigidity and poor education system performances and the lack of developed vocational and training programs. The quality of state management is shown below as indicator showing administrative readiness in absorption capacities building.

Table 10: Quality of the land administration index (0-30)

| | 2014 | 2015 |
|------------------------|------|------|
| Albania | 15,5 | 15,5 |
| Bosnia and Herzegovina | 12,5 | 12,5 |
| FYR Macedonia | 24,5 | 24,5 |
| Montenegro | 17,5 | 17,5 |
| Serbia | 16 | 16 |
| Kosovo | 20,5 | 20,5 |
| Slovak Republic | 26,5 | 26,5 |
| Netherlands | 28,5 | 28,5 |

Source: World Bank, Date of extraction 04.10.2016.

From presented data it can be seen that quality of public management in observed countries, except in Macedonia, is extremely poor. Quality of the land administration index in SEE countries ranges between 50% and 65% of the maximum index value, while for example Slovakia as transition country that has joined the EU previously, achieves 88% of the maximum index value and shows progress possibilities. This indicators demonstrate unwillingness of actual political elites to take significant steps forward in improving state management quality in order to improve efficiency of public system and public policies to strengthen national economy for competing in the Single European Market. This, in addition to unwillingness of launching educational and training programs to mitigate the consequences of long-term unemployment caused mostly by structural mismatch between acquired qualifications and labour demands, slows down and prevents administrative absorption capacities building as one segment for increase of the total absorption capacities in withdrawing EU pre-accession funds.

Due to lack of domestic capital, states often rely on foreign investments as generators of economic recovery and development holders. However, due to limited and underdeveloped market, limited economic potential, certain political and economic risks and peripheral location of SEE countries, foreign investments inflows can be unstable and cause significant economic fluctuations. Table 11 shows trend of foreign investments in SEE countries.

Table 11: Foreign direct investment, net inflows (BoP, in 000 current US\$)

| | 2005 | 2007 | 2009 | 2011 | 2013 | 2015 |
|------------------------|----------|----------|---------|---------|---------|---------|
| Albania | 262479 | 652275 | 1343091 | 1049425 | 1253783 | 991259 |
| Bosnia and Herzegovina | 623813 | 184197 | 138511 | 471611 | 313295 | 293449 |
| Macedonia, FYR | 145329 | 733466 | 259530 | 507920 | 402458 | 296604 |
| Montenegro | 500611 | 937515 | 1549312 | 556257 | 446490 | 699736 |
| Serbia | 1577035 | 4423927 | 2928877 | 4929898 | 2059702 | 2345152 |
| Kosovo | 133823 | 603224 | 408068 | 534965 | 371512 | 343256 |
| Czech Republic | 13730164 | 13815656 | 5271613 | 4188736 | 7357578 | 1699914 |
| Slovak Republic | 3924682 | 5059527 | 1519061 | 5426624 | 1003810 | 1151416 |
| Slovenia | 970800 | 1884932 | -346269 | 875544 | 103977 | 1680440 |

Source: World Bank, Date of extraction 04.10.2016

Data available in the sources show that foreign direct investments in SEE countries observed in longer time series significantly oscillate that is result of individual large transactions or privatisation processes, mostly in financial services sector, telecommunication and energy. This situation confirms that foreign investments have very poor and limited possibilities to generate stable economic growth. FDI expressed in US \$ confirms that volume of foreign investments in SEE countries is modest (much lower than the European average) and as such it can not take the desired role. According to data of World Bank, Unctad and national statistical bureaus the most FDI is mostly directed to high-profitable service sectors (telecommunications, energy sector, financial sector and insurance companies). A part of FDI directed in secondary sector is mostly motivated by market take over. From the other side, domestic financial sector in these countries is mostly banks-oriented and driven by payments security principles, that can be positive for maintaining stability, but certainly it is not stimulating for entrepreneurship especially in situation of limited funds from public sources. In this context it is inevitable to underline weaknesses of these countries in innovations, absorption capacities of foreign technology and diffusion of new technologies in traditional sectors. Investments in research and development is below 0,8% of GDP what is much lower than the European average (2%), and almost there are no private research institutes. Since foreign investments do not contribute significantly to the economic growth process, political and economic authorities will need to make more significant step forward in identifying measures and instruments to encourage

economic progress and thus the readiness to build absorption capacities not just for pre-accession but also later for structural funds.

5. CONCLUSION

The absorption capacity relates to company and institutions capacities to withdraw the European funds as assistance to objectives, activities and areas defined as priority in the current programming period. Through priority areas the EU strives to direct the European economy development according to defined objectives not necessary to be corresponded in all member states or to optimise economic and management conditions in all countries. The Pre-accession funds helps to countries that want to become members in institutional adjustment, strengthening rule of law and territorial cooperation, educational reform, human capacities and preserving villages. Through this program countries strengthen their own capacities even before becoming member states and practice project approach model to the EU funds.

Due to insufficient absorption capacities SEE countries did not use available funds in the previous programming period what caused some modifications in the new programming period to help absorption capacities building through education and evaluation. Even though they can not be measured precisely, from the previous research it can be concluded that administrative capacities are the most important limitation in building greater absorption capacities in SEE countries.

Insufficiently educated and unmotivated administration is not capable to react optimally on time and ensure necessary assistances to economic entities and other institutions, but mostly resorts to retention solutions. Significant limitation are macroeconomic and financial absorption capacities beside the administrative, that is worsen in the previous period by economic crisis. Unfavourable economic trends, low or negative growth rates, fiscal imbalance, trade imbalance, passive restructuring model, low employment, low innovations and low foreign investments inflow make it difficult to build stable and prosperous economies with no problem to ensure financial and macroeconomic basis for quality application and acceptance of pre-accession funds.

In unfavourable macroeconomic and financial environment less ideas, less initiatives and readiness to take risk are created that results in low number of projects for pre-accession funds and the in sub-optimal absorption. The financial problem is particularly evident at lower levels that due to too large budget deficits and public debt increase are not able to close financial construction to cover national contribution.

Absorption capacities of observed SEE countries are insufficient what requires actions of relevant stakeholders in order to strengthen them. Taking into account conclusions of macroeconomic analysis, it is clear that it is not possible to increase absorption capacities significantly without positive economic trends and launching investment cycle. However, beside poor macroeconomic trends, there is significant space to improve absorption capacities in administrative segment, where they are the worst, and primary through strengthening public management capacities, improving state management and launching educational and training programs with deliberately chosen specifications and skills. All stakeholder need to make step forward in strategic approach to development and make stocks of project aligned with cohesion policies initiatives by synergy.

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