A “what if” analysis for sound financial management decisions in Romanian European Social Fund grants evaluation

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Abstract

European Commission trusted for implementation the European Social Fund (ESF) to Member States through a commonly agreed decentralized management system, including compliance to the “sound financial management” principle within the Members’ State designated Authorities obligations. While implementing ESF, Romania should comply too with this principle all projects cycle life: national ESF programming, launching calls for grant proposals, evaluating applications and contracting, monitoring and disbursing sums. Even if performance’s basis is put in the programming phase, grant assessment phase stays as the most important in fixing each grant’s future performance and the program’s performance framework as well. Our study tends to enhance the importance of assessment process for sound financial management implementation in a “what if” analysis based on potential financial corrections applied due to a potential deviation of proposed costs from fixed standard cost. Conclusions lead us to a number of scenarios that may be practically used for assisting management’s decision and reporting towards a sound ESF implementation in Romania.

Keywords: Econometric tools, Fixed costs, Variable costs, Sound financial management;

1. Introduction

Relevant information comprising management best practices applicable in different fields, including grants implementation, may be found in different studies (Crisan, Ilies & Salanta, 2010; Plesea & Visan, 2010, Dragos, 2007). A sound financial management of ESF grants is crucial for the program’s effectiveness (Jaliu & Radulescu, 2013). The European Commission (EC) has defined the sound financial management (EC Regulation 966-2012, art. 30) reported to the principles of economy, efficiency and effectiveness. According to the EC latest practices, sound financial management tends to become expenditure eligibility criteria, being an objective indicator of returned value for EU money invested in various fields. In case of ESF implementation in Romania under decentralized management, we may report resources to outcomes, determining efficiency (ISSAI 3000).

Our present analysis follows the impact at operational program’s level of possible financial corrections applied within the grants assessment phase due to some proposed costs exceeding normal, acceptable, reasonable cost levels, as we consider that they were implicitly understood within the ESF financed Operational Program. Our tested and confirmed hypothesis is that in case of financial corrections applied to some of the grant applications, a stronger
dependence could be found between allocated resources and outcome indicators in terms of program efficiency. In fact, our present analysis is a simple one, offering answers to simple questions. What should have happened with operational program efficiency if evaluation committees had been made financial corrections for exceeding costs? Should have been there a stronger bound between budgets and indicators, or some other regression model following efficiency? Could these models suggest a better performance oriented approach to program management?

Unfortunately, a clear performance criteria for reporting efficiency component of performance to, is not explicitly defined. Based on its Activity Based Management-ABM approach (ECA Performance Audit Manual), the EC has approved program’s budget for a number of outcome and result indicators, without defining a clear relationship between budgets and indicators. This is why an efficiency evaluation may hardly be accomplished. Even with the use of accounting management tools (Dogar, 2013), if financed activities are delivering more than one result, because of multi co-linearity problems (Dogar & Mare, 2013) the unit cost may be hard to be determined. We may appropriate for use of this study the standard cost as the average unit cost of the biggest target indicator, considering also for the conclusions the correlations among indicators and activities to be developed for attaining it within the approved ABM budget. For our study, based on the data we collected from 101 projects financed within the Priority Axis 5, Key Area of Intervention (KAI) 5.1. the indicator we will report the budget to in order to determine an appropriation of unit standard cost is number of professionally oriented long term unemployed (65,000 people). Reporting this to total KAI allocation, unit standard cost we are using in our analysis is 3050 euro/oriented person.

After imposing the limit of 3050 euro/participant in the professional orientation activities, we have re-estimated the budgets of the sample projects exceeding the standard cost to the standard. The relationship between the budgets and the number of persons involved this type of activities was studied. This paper presents a comparison between the real situation (scenario without cost limitation) and the “what if” situation (scenario with unitary cost limitation). Results clearly show that imposing a cost limit increases the influence of the number of participants upon the value of the budget, together with increased influence of variable costs and decrease of fixed costs for small target group oriented projects. However, the relationship between the two variables is not linear. Consequently, we have searched for the best type of model to describe it. The analysis emphasizes the best fit for the power and quadratic models.

2. Methodology and data

For the purpose of our analysis we have employed classical econometric tools based on the Ordinary Least Squares estimation method (Dragos, 2008). After descriptively describing the variables, we have constructed the linear regression model in order to assess the relationship between the budget of the project and the indicator stating the number of persons that participated to the professional orientation activities. The budget was used in its initial form (the real value accepted for the programme) and the theoretical one. We constructed the latter by imposing a maximum level of 3050 euro/participant to be spent as standard cost. All the values that exceeded this limit were replaced by it and the new budget (called the scenario budget) and the new unitary costs were computed. Results were then compared and conclusions drawn. The difference between the 3050-euro/participant limits and the real unitary cost was also computed. Scatter plots that graphically describe the relationship were constructed and, based on them, four regression models were, in the end, constructed and compared in order to find whether the linear one is the best to describe the dependence or not. The four models are: linear, logarithmic, quadratic and power. The regression analyses were run twice for every case, once on the whole sample and once on the adjusted sample (after eliminating outliers). The sample consists of 101 projects financially sustained through European Cohesion Funds. The adjusted sample was of 97 projects. The software used are STATA 9.1 and SPSS 17.0.

3. Results

To evaluate the efficiency of the ESF financed projects, we have used the deductive limitation of the unitary cost at 3050 euro, considered as standard cost and re-estimated the budgets accordingly. The average real budget was of 455152.52 euro, while with limitation the average reduces at 426704.76 euro. For the whole sample under analysis, imposing a maximum limit of 3050 euro spent per participant would have saved a total of 2873223.73 euro. The reduction also is to be seen in the average of the unitary cost, from 2334.53 to 1969.11. The spending with professional orientation of one individual involved in the program would have cost, on average, with 715.47 euro
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