

Absorption of European Funds in Romania During 2007-2013

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This paper aims to highlight the direct link between absorption of structural funds for the period 2007-2013, and the strategic objectives of Economic and Social Cohesion Policy. Structural and Cohesion Funds related to Romania have been and will be the main financial instrument of the European Union for creating jobs and generating growth, tackling climate change and energy dependence, reducing poverty and social exclusion. Throughout this article we highlight the evolution of the Structural and Cohesion Funds absorption and the degree of reduction of economic and social disparities. Finally we will conclude on the importance of absorption of Structural Funds in the context of globalization and economic competitiveness of the EU single market.

Key words: Absorption, European Union, cohesion, convergence, competitiveness

JEL classification: A1, A10.

1. Introduction

One of the main objectives of the European Union is to achieve economic and social cohesion. We hereby highlight the importance of reducing disparities and differences in the economic and social development between the Member States and regions of the European Union, of the improvement of the functioning of the Single Market and of promoting sustainable development. These are reached directly by structural funds; European funding is meant to serve as leverage in terms of public investment in member countries.

With the enlargement of the European Union, an increase of the public resources for the regional policy was eventually reached, but also visible differences between the Member States. (Lejour and Nahuis 2004) believe that EU enlargement brings more benefits to the new Member States and only a modest improvement in the welfare of veteran states, this conclusion being shared by other experts too. On the other hand it cannot be overlooked the fact that in economically integrated group of countries with different levels of economic and social development, the most advanced will benefit more compared to the less developed.

In Romania, one of the biggest challenges facing both public administration and business as well is the actual absorption capacity and absorption of EU structural funds allocated for the 2007-2013 programming period, the latter contributing to the economic convergence and social development in the European Union.

Among the main reasons that led to a low rate of absorption of structural funds, we may determine the lack of a coherent long-term vision of the local and central authorities, the inadequate resources for co-financing projects, the low administrative capacity at central and local level, lack of inter-institutional coordination, public-private partnerships failures and insufficiently qualified human resources.

This paper is an analysis of the absorption of structural funds in Romania in 2007-2013 aiming to identify the causes that placed it laggard in terms of performance achieved in attracting European funds.

2. The importance of economic and social cohesion policy for Romania

Economic and social cohesion policy is defined by its purpose which is to support the process of reducing disparities between the more developed regions and Member States of the Union European and those least developed.

Economic and social cohesion is one of the priorities of the European Union, alongside the Single Market, Economic and Monetary Union as defined by the Treaty of Maastricht.

Economic and Social Cohesion policy covers all EU actions aimed at achieving harmonious and balanced economic development, in particular by promoting the reduction of disparities between different regions/ states of the European Union, equality of opportunity and sustainable development.

This will increase the EU's competitiveness and generate revenue growth, benefiting the entire EU economy.

Cohesion Policy after 2007, the European Union has been divided into three funds: the ERDF, ESF and the Cohesion Fund. To simplify things, Agriculture and Fisheries Funds were transferred to related policies, namely the Common Agricultural Policy and fisheries policy. At the same time the Cohesion Fund will be apply the same rules as the Structural Funds for example: eligibility, multiannual programming, project approval, pre-financing, etc., Romania benefiting from all three ERDF, ESF and the Cohesion Fund.

In terms of management of the implemented projects, changes to the management of operational programs under the Convergence objective aim at creating an Audit Authority, which must be an independent organism, in charge of verifying the proper operation of management and control systems and a Certification Authority, to certify statements of eligible expenditure and certification of payment requests before submission to the European Commission.

For operational programs under the European Territorial Cooperation objective, the main changes were the need to create a Certification Authority, a Single Controlling authority and a group of financial controllers each being appointed by each participating Member State and serving to support the Control Authority.

The operation and implementation of Economic and Social Cohesion Policy and the Structural and Cohesion Funds of the European Union in the period 2007 - 2013, in Romania, was established by the Structural and Cohesion Funds Regulations of the European Union:

- Regulation no. 1080/2006 of the European Parliament and the Council on the European Development Fund Regională
- Regulamentul no. 1081/2006 of the European Parliament and the European Council on the European Social Fund
- Regulation no. 1082/2006 of the European Parliament and the European Council on Territorial Cooperation
- European Council Regulation no. 1083/2006 laying down general principles of European Regional Development Fund, the European Social Fund and the Cohesion Fund
- European Council Regulation no. 1084/2006 on the Cohesion Fund
- European Council Regulation no. 1828/2006 on the Implementation of Structural Funds
- European Commission guidelines on economic, social and territorial cohesion

The Cohesion policy 2007-2013 had three objectives each enjoying its own financial instruments. The first objective was convergence, financed from the European Regional Development Fund, the European Social Fund and the Cohesion Fund. The aim was to stimulate economic growth and encourage employment in less developed regions. Areas covered included innovation, the knowledge society, the environment quality, administrative efficiency and adaptability to economic change.

The second objective, Regional competitiveness and employment, was financed by the European Regional Development Fund and European Social Fund, targeting regions that do not fit under the first objective. That objective was to lead to enhanced competitiveness, increasing the attractiveness of regions and stimulate employment.

The last objective, represented by the European Territorial Cooperation, was meant to encourage the strengthening of cross-border and inter-regional, financed by the European Regional Development Fund. Common solutions were promoted to the authorities of different Member States to issues of rural development, urban and coastal development, of economic relations, building relationships between SMEs and in terms of research, information society, environment, and risk prevention.

EU budget allocations for Cohesion have steadily increased nominal value, reaching 348.865 billion euros.

If in 2007 for the cohesion policy, the allocation was about 45 billion euros, by the end of the

programming period 2013 it has increased to about 54 billion euros. Cohesion policy is the main advantage in the European Union to support social and economic cohesion.

Economic and social cohesion policy in Romania and also in the European Union is a solidarity-based policy. Its purpose is to create jobs and increase their competitiveness by providing support to both states in less developed regions and those facing structural difficulties.

3. Evaluation of the absorption of structural funds for the period 2007-2013

Absorption capacity is determined by the degree to which a country is able to effectively and efficiently spend the financial resources allocated from the Structural Funds. If we consider that to achieve this need, on the one hand, the absorption capacity of the institutional system created by the state to administer the funds in question and, on the other hand, the absorption capacity of the beneficiaries targeted by these funds, we might consider that there are two distinct, ie the absorption capacity of the supply of funds and capacity to absorb of the demand side. The latter has to do with the capabilities of potential beneficiaries to create and to co-finance projects.

The absorption capacity in terms of supply is determined by three main factors, namely (Horvat, 2004):

A. Macroeconomic absorption capacity. It can be defined and measured in relation to GDP. The Council Regulation no. 1260/1999 provides that the annual amount of a Member State benefiting from the Structural Funds - with assistance from the Cohesion Fund - should not exceed 4% of GDP. The macroeconomic capacity impacts the need to increase budgetary expenditures as a result of accession too. Such a consensus regarding the need, since 2007, that Romania ensure budgetary expenditure by at least 2% of GDP higher than the pre-accession, spending strictly determined by obligations in the context of European integration: Romania's contribution the EU budget around 1% of GDP, respectively national budget amounts necessary for priorities and measures to be co-financed by Community funds still 1% of GDP.

Also connected to the macroeconomic absorption capacity is the ability to absorb the macroeconomic effects generated by the additional expenses that will be incurred. It is clear that these costs will result in an increase in aggregate demand, but will have an impact on aggregate supply, particularly on its component related to the labor market. All these aspects are linked to the nominal convergence too - price stability, interest rates and exchange rates - large inflows of foreign capital may put pressure on it, with potentially negative consequences on competitiveness, but also to the real convergence in the sense cohesion policy, namely socio-economic development and reducing disparities compared to the average community.

B. Financial absorption capacity. This is the ability of central and local authorities to co-finance programs and projects supported by the EU, to plan and guarantee these national contributions in multi-annual budgets and to collect from various users involved in a project or program.

C. Administrative absorption capacity. This refers to the ability of central and local authorities to prepare plans, projects and programs in time to select the best of them, to organise an effective partnership framework, to comply with administrative and reporting requirements, and to finance and oversee the implementation process, avoiding any kind of irregularity. Measuring the administrative capacity involves evaluation of three elements:

- Structure
- Human resources
- Systems and tools

Structure refers to the clear division of responsibilities and tasks on institutions; or rather, the units and departments of these institutions. This distribution relates to a series of tasks related to the phases of the life cycle of structural funds management, ie management, financial management, programming, implementation, monitoring and evaluation and control. The structure is also concerned with the complementary supervisory bodies such as monitoring committees, audit, financial control, partnerships, etc.

Human resources consider the ability to drill down the tasks and responsibilities to the level of job description, to estimate the headcount and qualification and conduct recruitment activities.

Providing timely and maintaining experienced, qualified and motivated staff is one of the factors that determines the successful administration of structural funds.

Systems and tools consider methods, instructions, manuals, systems, procedures, forms etc. All these are props that can enhance the effectiveness of system operation. They enable organizations to transform tacit and implicit knowledge, regarding personnel into explicit knowledge that can be shared within and outside the organization. The existence of systems and tools reduce the vulnerability of institutions and contribute to their efficient operation.

Management is one of the key components that determine the administrative capacity to absorb EU funds. The main role in fulfilling this task is undertaken by management, although the Paying Authority or Intermediate Bodies play an important role as well.

One of the important steps to management of structural instruments is to ensure approval of the strategic objectives to be achieved and identify management solutions to meet these objectives. To facilitate the absorption of funds by the new Member States, the maximum rate of co-financing from the structural funds increased from 80% to 85%, considering the eligibility criteria was eased (Georgescu, 2009). Absorption capacity is given by the competence of a Member State to spend the financial resources allocated from the Structural Funds in an effective, targeting three areas:

- Macroeconomic absorption capacity defined and measured in terms of GDP - limited to 4%;

- Financial absorption capacity defined as the ability to co-finance programs and projects supported by the EU, to plan and guarantee these national contributions in multi-annual budgets and collect contributions from the partners involved in various programs and projects;

- Administrative capacity, which is the ability and competence of central and local authorities to prepare programs and appropriate and timely projects, as well as coordination with the partners involved, to comply with administrative and reporting requirements, funding and monitoring the implementation of programs and projects and, also avoid the occurrence of irregularities.

Given the definition of absorption capacity (Beric, 2010) specified above, we can assume that it is mainly influenced by managerial and administrative capacities of co-financing. The relationship between the capacity of absorption of structural funds and regional economic situation is at least one paradox, practice demonstrating that the most disadvantaged regions face the greatest difficulties in absorbing these funds, although the need for financial support for the restructuring of the economy is paramount in these regions. The main explanation for this phenomenon is given by two factors: on the one hand, the difficulties faced by regional authorities lack the experience and qualification, followed by red tape and the slowness of EU decision-making under the circumstances where sequential programming at central and regional level in particular are not quite clear. Thus, issues of absorption capacity depends largely on institutional factors, so the EU structures, as well as national ones.

Other determining factors relate to programming and Development Department administrative capacity and institution building in the pre-accession. According to the Commission's recommendations and best practices from EU countries, a golden rule becomes evident, namely the possibility of higher rates of absorption is directly proportional to the number of institutions in the new member states involved in the different levels of management and sectoral programs and regional (Horvat, 2009).

4. The absorption of structural funds in Romania 2007-2013

In 2007-2013 (<http://www.fonduri-structurale.ro>), April 2014, Romania paid to the EU budget about 9.2 billion. Euro, but received via the operational programs financed by the Structural Funds NRDP - National Rural Development Programme, POP - Operational Programme for Fisheries and subsidies per hectare over 15 bln. euro, making it a slight advantage. Even in this context, Romania is still far from being successful in attracting European funds for the repayment of the European Commission is less than half the allocation of about 32.9 billion euros available to Romania for the financial period 2007-2013.

Only 9.7 billion euros were raised effectively through projects, ie programs financed from structural funds, RDP and POP, although the amount allocated to these programs is approximately 27.6 billion euros. 5.4 billion euros, or about a third of the amount received by Romania to the EU in 2007-2013, representing agricultural subsidies, granted per hectare that don't depend on the capacity of beneficiaries or their partners to propose and implement a project or on the efficiency of the structures the Romanian public institutions.

For the programming period 2007-2013 (www.fonduri-ue.ro), Romania has been allocated a budget of 19.213 billion euros plus national co-financing - the state budget, local budgets and private sector in value of about 5,6 billion.

Structural Funds are implemented through seven Sectoral Operational Programme:

- SOP Transport - 5.3 billion euros, of which 4.56 billion. Euro EU funds, which represents approximately 23.5% of the allocation for the NSRF.
- Human Resources Development total budget for 2007-2013 is 4.25 billion Euros, of which 3.47 billion euro EU funds, which represents approximately 18.1% of the allocation for the NSRF
- Increase of Economic Competitiveness total budget for 2007-2013 is 2.55 billion
- Development of Administrative Capacity - 208 million euros,
- Environment - € 4.5 billion
- Regional Development - POR - 3.726 billion euros; after its implementation it is aimed at creating better conditions for territorial balance, both economically and socially, of all regions of Romania)
- Technical Assistance Program 170 million.

Making an empirical analysis of the current situation (Droj, 2010), and judging by the amount allocated to the seven operational programs, we can assess that they are significant compared to the pre-accession funds.

What we see is the degree of concentration higher ROP, SOP and POST, the rehabilitation of infrastructure, followed by POSCCE and SOP HRD and to a lesser extent POS Administrative Capacity Development (Gherghinescu, 2009).

According to the National Strategic Reference Framework for Romania, European Union funds will be invested, as I mentioned, in order to reduce economic and social disparities by generating an increase of up to 20% of GDP by 2015. For accomplishing this objective five thematic priorities were set: development of basic infrastructure in line with EU standards - prerequisite for boosting economic growth and improving social cohesion; increase long-term competitiveness of the Romanian economy; development and more efficient use of human capital; building an effective administrative capacity and promoting balanced territorial development (Ligia, 2010).

However, Romania still faces a big challenge in the absorption of EU structural funds. The absorption rate is still low, both in relation to the funds allocated and to the general national income, hence given the ongoing economic context and the level of crediting, national authorities have committed to take steps to increase absorption taking into account including closer involvement of commercial banks (<https://www.imf.org>).

According to data provided by the Authority for Coordination of Structural Instruments (ACIS) in 2014, the absorption in Romania reached 51% at the end of December 2014 (www.agerpres.ro/economie/2015), followed by the end of 2015 to reach to 80%. Romania inability to use EU funds is endemic, although this may be explained by various factors and junctions.

The failure to absorb EU funds absorption up to 100%, is not only paradoxical situation, but also one with dramatic effects in terms of recovery of disparities of development and real convergence with the European Union.

The main reason of the lack of absorption of structural funds by Romania is the lack of transparency of the central government, particularly at the operational program management and also denial of existing vulnerabilities in this regard which prevents the identification of potential problems. Instead of analytical images an incomplete picture of absorption is presented, emphasizing only the positive aspects that ultimately make any scientific approach difficult. The be noted that during the implementation of a project (Zaman, 2009), absorption may be influenced by the macroeconomic vulnerabilities arising from both internal and external Romania. One of the major vulnerabilities that could affect the absorption rate of the EU funds is the stiffness of the banking system in terms of loans for co-financing projects. In the context of strengthening credit conditions imposed by the central bank, interest and fees charged by commercial banks increased and applicants must submit a

percentage of the amount financed up to 25% as collateral, which remains locked until the loan is approved bank, which means a delay of several months.

5. Conclusions

Be highlighted through this work preoccupations regarding the realization of an EU strategic objectives of Economic and Social Cohesion Policy, for economic, social and solidarity in our country.

We emphasize the importance of this work that it puts a new light on concerns Romania absorption of EU funds in their entirety and in-depth analysis of the absorption of key programs. Regarding the research methodology used can include literature review, synthesis, comparison analysis. The synthesis itself that we made it through extensive exposure data analysis and critical appraisal and objective at the same time to express our theoretical positioning works consulted.

If you want to make a brisk analysis of the above, we conclude on issues that determine the low rate of absorption of EU funds in Romania, namely:

- The reluctance of beneficiaries generated by the low level of pre-funding of operational programs and the high level of private financing;
- Undue delays in developing operational programs by managing authorities from different ministries and speed in response to comments made by the European Commission; These delays were caused mainly by the persistence of the pre-accession mentality when strategic planning was done, for the most part, by the European Commission and not by the Romanian Government;
- Delays in providing a solid institutional structure for networks of intermediate bodies and regional units, which have the duty to manage the Structural Funds at regional and local level;
- Limited culture in project management both for public and private ones;
- Poor involvement of public authorities in developing the capacity of potential beneficiaries of projects;
- Delays in finalizing the list of eligible expenditures, payment and reimbursement procedures;
- Misunderstandings between existing and newly established bodies involved in the management of structural funds and a lack of staff training and qualification for certain intermediate bodies.

We also highlight the key measures that can be taken to strengthen the capacity of absorption of structural funds in the near future:

- Measures are needed to strengthen administrative capacity in all major ministries and other relevant bodies;
- Financial management and control is still characterized by structural weakness and needs to be strengthened considerably to avoid future irregularities;
- Staffing and employment rate should be increased to recover the recorded delays;
- Cooperation between central and local level should be strengthened substantially;
- The mechanisms of financing should be clarified;
- In programming, the partnership principle should be implemented effectively;

Analizing the above mentioned we can underline the rules in the methodology for accessing European funds are extremely harsh, but once they have been met the funding opportunities for business ideas will soon appear for both the private and the public environments.

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