

# THE ANALYSIS OF ABSORPTION CAPACITY OF EUROPEAN FUNDING IN THE NORTH WESTERN REGION OF ROMANIA

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*This paper analyzes the Romanian absorption capacity of the funds allocated through the REGIO programme, which is part of ERDF programme. Within the paper are presented the concept of absorption capacity and several opinions regarding its main composing elements. Also the Regio programme, its main axis and its budget is briefly presented. In the last chapter of the analysis a thorough analysis of the implementation of REGIO in the Romanian North-West Region was carried out and several causes for the low absorption of European Funds have been identified.. The process of improving the absorption capacity of European Funds is still at the beginning in Romania and will certainly become an important issue over the following years at all levels of the Romanian society and at the level of the European Funding Authorities as well.*

*Key words: Absorption capacity, European Union, European funds, Structural Funds, European Regional Development Fund, Financial allocation*

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## 1. Introduction

The Structural Funds and the Cohesion Fund are financial instruments of the policy of economic and social cohesion. These instruments support the reduction of the gap between the development of different regions from the member states and promote, to this purpose, the economic and social cohesion. The general rules for the Structural Funds and the Cohesion Fund were set by the *EU Council Regulation no. 1083/2006 June 2006*, which defines the general framework for the European Regional Development Fund, European Social Fund and for the Cohesion Fund (European Council, 2006). The eight East European EU member states that joined in 2004, along with Bulgaria and Romania—the “EU10”—are set to receive a huge amount of support from the EU in 2007-13. The eight more seasoned “new member states” will see their funding allocations almost double, and the jump in funding for Bulgaria and Romania compared to the pre-accession funds they had been receiving will be even more sizeable (Economist Intelligence Unit, 2007).

Total funds allocated to the EU10 for 2007-2013

Country	Total assistance (billion (euro))	Per capita assistance (euro)	% of the GDP
The Czech Republic	26,686	2.627	3.5
Estonia	3,393	2.555	4.1
Hungary	25,307	2.561	3.9
Latvia	4,001	1.751	3.9
Lithuania	6,775	2.041	4.2
Poland	67,284	1.773	3.6
Slovakia	11,507	2.102	3.9
Slovenia	4,102	2.082	2.0
Bulgaria	6,674	901	4.0
<b>Romania</b>	<b>19,668</b>	<b>911</b>	<b>3.2</b>
TOTAL	175,397	1.930	3.6

Figure 1. Total funds allocated to the EU 10 for 2007-2013 (Economist Intelligence Unit, 2007).

Despite the EU10 have also been busy building new institutions and training staff to improve their “absorption capacity”— the ability to manage and organise the spending effectively, is still under much debate and questioning both from their citizens and from old member states as well.

## **2. Defining the absorption capacity**

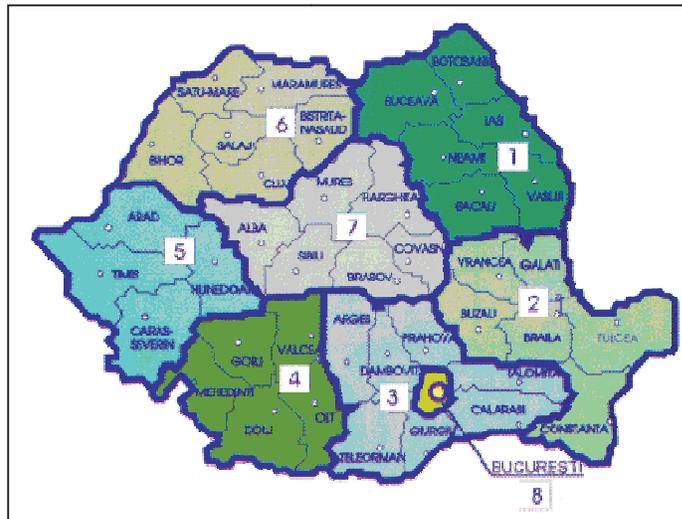
The absorption capacity is generally defined as the “capacity of the countries on low incomes to absorb productively a large volume of foreign aid”, the central issue here being to prioritize the granted aid (Bourguignon and Sundberg, 2006). From this perspective and taking into account the beneficiaries of the international aid, the absorption capacity relates to the general functionality of the particular state, to the adjustment of obvious dysfunctions and to the adoption of minimal administrative and economic standards(Cace et al, 2009).

The analysis by Boot et al, 2001, is the first to systematically put forward the notion of absorption capacity. It has defined it as “the extent to which a member state is able to fully spend in an effective and efficient way the allocated financial resources from the Structural Funds” (Boot, de Veet, Feeks, 2001). On this basis three more specific factors of absorption capacity have been established(Wostner, 2008):

- The *macroeconomic absorption capacity*, which would be defined and measured in terms of GDP;
- The *managerial-administrative absorption capacity* which refers to the abilities and skills of central, regional and local authorities to prepare acceptable plans, programmes, and projects in due time, to decide on programmes and projects, to arrange the co-ordination among the principal partners, to cope with the vast amount of administrative and reporting paperwork required by the Commission, and to finance and supervise implementation properly, avoiding fraud as far as possible.
- Finally, the *financial absorption capacity*, which refers to the ability to co-finance EU supported programmes and projects, to plan and guarantee these national contributions in multi-annual budgets, and to collect these contributions from several partners, interested in a programme or project.

## **3. Regional Operational Programme - the main infrastructure financing tool of the European Union in Romania**

The Regional Operational Programme 2007 - 2013 (REGIO) is one of the main Romanian operational programmes agreed with the European Union and a very important tool for implementing the national strategy and the regional development policies. It is applicable to all eight development regions of Romania. The overall objective of the ROP consists of "supporting and promoting sustainable local development, both economically and socially, in the regions of Romania, by improving the conditions of infrastructure and business environment, which support economic growth". This means that the ROP's aim is to reduce economic and social development disparities between the more developed regions and the less developed ones. (Romanian Government, 2007). As mentioned above and presented in the figure bellow Romania has eight development regions: which contain between four to seven counties(Region 1 to 7) and the Ilfov County of the capital city of Bucharest(Region Eight).



**Figure 2. Development Regions – Romania (Romanian Government, 2007)**

The Regional Operational Programme in Romania is financed within one of the structural funds of the European Union – the European Regional Development Fund (ERDF). This fund supports EU regions with a GDP per capita below 75% of the European average.

The total budget allocated to the ROP is approximately 4.4 billion Euros in the first 7 years after accession (2007-2013). EU funding represents approximately 84% of the ROP budget. The rest comes from national funds, public co-financing (14%) and private co-financing (2%).

The distribution of funds is done on the priority axes of the Regional Operational Programme. Each priority axis is allocated a certain budget and includes a number of key areas of intervention whose target is the achievement of development objectives.

*It is expected that the implementation of this programme will create better conditions for the economic and social balanced territorial development of all Romanian Regions and for urban growth poles able to spread the development.*

The balanced development of all the counties regions will be achieved through an integrated approach, based on a combination of public investments in the local infrastructure, active policies to stimulate business activities and support for the valorisation of the local resources, by the following priority axes:

- Support to sustainable development of urban growth poles
- Improvement of regional and local transport infrastructure
- Improvement of social infrastructure
- Strengthening the regional and local business environment
- Sustainable development and promotion of tourism
- Technical assistance.

In order to ensure the implementation of the actions within the program an amount of almost 4.4 billion Euros have been allocated between the six Priority Axis of the fund:

Priority Axis	EU Contribution	National Public Contribution	Total Public Contribution
Support to sustainable development of urban growth poles	1 117 806 529	273 365 256	1 391 171 785
Improvement of regional and local transport infrastructure	758 355 021	118 355 985	876 711 006
Improvement of social infrastructure	558 903 260	98 629 992	657 533 252
Strengthening the regional and local business environment	633 423 700	76 471 117	709 894 817
Sustainable development and promotion of tourism	558 903 264	57 862 924	616 766 188
Technical Assistance	98 629 988	32 876 662	131 506 650
<b>Total</b>	<b>3 726 021 762</b>	<b>657 561 936</b>	<b>4 383 583 698</b>

Figure 3. Regio - Breakdown of finances by priority axis (European Union - 2007)

From this amount of 4.4 billion Euros an amount of 536.41 million Euros are directly allocated to the North-West Region as presented in the programming documents of the Regio Programme (Ministerul Dezvoltării Regionale și Turismului, 2007). North-West Region has a surface of 34,159 sqkm, accounting for 14.3% of the total surface of the country. It comprises six counties (NUTS 3): Bihor, Bistrita-Nasaud, Cluj, Maramures, Satu Mare and Salaj. North-West Region's network of localities comprises of 42 towns and cities and 1,802 villages, grouped in 402 communes. Out of the towns and cities, four of them have a population over 100,000 inhabitants (Cluj-Napoca – 310,194 inhabitants, Oradea – 206,223, Baia Mare – 140,937 and Satu Mare – 115,197), nine between 20-100,000 inhabitants and 29 less than 20,000 inhabitants.

#### 4. Absorption capacity in the North-West Region

To the North-West region of Romania as described above was allocated from the Regio Programme 2007-2013 an amount of 536.41 million Euros. The allocations of funds are distributed between the five implementation axis of the programme. Based on a Report presented by the North Western Region Development (Agency Agentia de Dezvoltare Regională Nord-Vest, 2010), which is dated on 31.03.2010, was assessed the current state of the REGIO funds contracting till that date. As will be presented in the table bellow the current state of the contracting within the programme for all five axis is in this moment under 24% from the total budget.

Regional Operational Programme - Axis	Amount allocated (mill EUR)	Amount requested (mill EUR)	Amount contracted (mill EUR)	Amount contracted %
Axis 1 - Support to sustainable development of urban growth poles	168,19	82,32	0	0,00%
Axis 2 - Improvement of regional and local transport infrastructure	105,99	218,02	95,33	89,94%
Axis 3 - Improvement of social infrastructure	79,50	161,66	11,65	14,65%
- 3.1 Improvement of Health Infrastructure	20,99	42,68	1,97	9,39%
- 3.2 Improvement of Social Services Infrastructure	12,03	21,06	3,1	25,77%
- 3.3 Improvement of Emergency Infrastructure	12,03	9,79	0	0,00%
- 3.4 Improvement of Education Infrastructure	34,45	88,13	6,58	19,10%
Axis 4 - Strengthening the regional and local business environment	96,19	48,00	4,4	4,57%
- 4.1 Development of sustainable business support structures	33,17	27,77	0	0,00%
- 4.2 Rehabilitation of unused polluted industrial sites	28,46	0,00	0	0,00%
- 4.3 Support the development of micro-enterprises	34,56	20,23	4,4	12,73%
Axis 5 - Sustainable development and promotion of tourism	86,54	109,31	16,84	19,46%
- 5.1 Restoration and valorization of cultural heritage	28,46	42,78	15,35	53,94%
- 5.2 Creation, development, modernization of the tourism infrastructure	39,90	66,09	1,05	2,63%
- 5.3 Promotion of Tourism	18,18	0,44	0,44	2,42%
<b>Total</b>	<b>536,41</b>	<b>619,31</b>	<b>128,22</b>	<b>23,90%</b>

### **Figure no 3 The status at 31.03.2010 of Regio Programme in North-West Region**

As observed from the table above the biggest contracted amount are on the Axis 2 Improvement of Regional and Local Transport Infrastructure where are contracted 95.33 million Euro from the total of 105.99 million Euros, a 89.94% from the budget of the Axis.

The other Axis have contracted between 0%(Axis 1) and 19.46% on the Axis 5. The biggest concern comes from the Sub-Axis 4.2 Rehabilitation of polluted industrial sites where no projects have been proposed even if the total budget of this action is 28.46 million Euros. Large delays in evaluation and contracting of projects have been registered also in Axis 1 or sub-axis such as 3.1, 3.2, 3.4, 4.1, 5.1 and 5.2. In these cases despite the large amount of funds requested, sometimes over 250% over the allocated budget, the evaluation of the projects and contracting procedure are delaying the implementation of the projects. For example even if 82.32 million Euros have been requested on Axis 1 or 27.77 million Euros have been requested on Sub-axis 4.1 no projects have been contracted yet. In other cases even if the amount requested was much higher than the funds allocated (Axis 3.1, 3.2, 3.4 or 5.2) modest evaluation and contracting rates have been achieved: between 2.63%(Axis 5.2) and 25.77%(Axis 3.2). In the same time can be mentioned the delays in presenting feasible financing projects by the beneficiaries. And since 2010 is the half of the contracting period 2007-2013 all these analyzed facts demonstrate a low capacity of absorption of European Funding by the Romanian stakeholders.

The most important reasons identified for these facts as reflected within the analysis from this paper and from the numerous studies(Fundația Șoros Romania, 2009 or Departamentul pentru Afaceri Europene, 2009). Most of the factors causing a lower than expected absorption capacity in Romania can be summarized in the following lines:

- Slow actions of the institutions specialized in analysis and contracting of the financing projects
- Lack of proper specialized staff in the fields of European funded projects accession and management, mostly at the level of the beneficiaries
- Low level of information, low expertise and very low qualifications of the beneficiaries regarding the accession and management of European funded projects
- “Low percentage” of contracting specialized external consultancy at the level of the beneficiaries with direct effects over the low capacity for absorption of external financing, the lack of professional approach regarding the proposal and contracting of European projects, and the quality of the proposed projects.
- Low reaction at the level of beneficiaries and management authorities regarding the process of elaboration, proposing for financing or evaluation and contracting of projects
- Low request or wrong established eligibility criteria for some of the proposed financing programs causing low interest from the stakeholders, as in the case of REGIO – 4.2.
- The “continuous” modification and completion of the eligibility conditions imposed both to the beneficiary and to the project, most of the times after the financing round is open, causing the beneficiaries costly modification of the projects, or even causing the impossibility for the submission of the project or in some cases submitted projects to be declared not eligible.
- Low financial and management capacity of the beneficiary. Some of the proposed projects lack the co-financing in order to be implemented.

In order to correct these inconsistencies and to increase the absorption capacity for the programme direct actions should be taken both at the level at the management authorities and at the level of beneficiaries.

### **5. Conclusions**

This paper tried to analyze the Romanian absorption capacity of the funds allocated through the REGIO programme, which is part of ERDF programme. Within the paper was presented the concept of absorption capacity and several opinions regarding its main elements: macroeconomic absorption capacity, managerial-administrative absorption capacity and financial absorption

capacity. Also the Regio programme, its main axis and its budget was briefly presented. In the last chapter of the analysis a thorough analysis of the implementation of REGIO in the Romanian North-West Region was carried out and several causes for the low absorption of European Funds have been identified. Since these causes are directly threatening the successful accession of EU a direct action should be taken both at the level of Programme Management Authorities and at the level of the beneficiaries. The process of improving the absorption capacity of European Funds is still at the beginning in Romania and will certainly become an important issue over the following years at all levels of the Romanian society and at the level of the European Funding Authorities as well.

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